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ABSTRACT

The 10 instructional sections which make up this guide on the operation of a small business from the home are intended for individual use whether in conjunction with an educational program or solo. Each section consists of a list of objectives, informational material, suggested activities, and a list of references. The sections cover the following topics: exploring a home-based, home economics-related business; planning a home-based business; legal considerations; finding money to start a business; organizing the work of the business; purchasing necessary supplies; setting prices for the home-based business; financial recordkeeping; advertising and selling; and evaluation of the business. (YLB)

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HOME ENTREPRENEURSHIP:

instructional materials in the operation of a small business from the home

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June 1983

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Susan F. Weis
Kay S. O'Brien

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HOME ENTREPRENEURSHIP: INSTRUCTIONAL MATERIALS IN THE OPERATION OF A SMALL BUSINESS FROM THE HOME

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SECTION I

EXPLORING A HOME-BASED HOME ECONOMICS RELATED BUSINESS

OBJECTIVES

1. Identify some home-based business possibilities related to home economics skills and interests
2. Learn what a small business is; how small businesses are alike; what a small business owner does
3. Explore the personal qualities needed for successful small business operation
4. Evaluate your own personal qualifications

SECTION I

EXPLORING A HOME-BASED HOME ECONOMICS RELATED BUSINESS

Home based business enterprises are being started by increasing numbers of people. These small businesses seem to be predictive of the way many people will be earning their living in the future. The home economics disciplines lend themselves to the development of this wave of the future.

Home Economics has five major areas of focus:
Housing and Interiors
Home Management and Family Economics
Human Development and the Family
Clothing and Textiles
Foods and Nutrition

There are countless numbers of businesses that could evolve from these areas of home economics interests.

- Running an interior decoration service, producing art accessories for the home or providing collectibles for miniature doll house enthusiasts are but a few examples of some skilled design applications for business opportunities in the housing and interior area.
- Coordinating home management services for busy people needing a variety of home services is another business possibility. Operating a liason service from the home which would connect people who need a definite service performed with those capable of performing quality work is becoming a necessity to more and more people as increasing numbers of women work outside their homes. The services needed are housecleaning, shopping, maintenance and repairs ranging from painting and carpentry to electrical work and plumbing. The home management coordinator could function as a guarantor of satisfaction between home owner and work performer.

- The home economics area of concern for families and human development offers the obvious opportunity of a home based business in child care services for working mothers. Only a small fraction of the needed child care services in this nation are actually met. There is an ever increasing demand for quality, stable child care providers and facilities.
- The clothing and textiles focus of home economics would lend itself to a home based business providing custom tailoring, exclusive one-of-a-kind construction of original garments, garment construction for those with special needs for proper fitting clothing, alterations and repairs. Construction of children's clothing, baby garments and unique textile toys are also business possibilities. Construction of textile products for home, family and personal use is almost infinite in scope ranging from knitted garments, macramé and other craft items to custom made draperies and decorator accessories.
- The foods and nutrition area offers business possibilities ranging from candy making and cake decorating to gourmet cooking and catering services. Gourmet cooking, ethnic cookery, and vegetarian cooking also offer possibilities for teaching small groups of interested people the secrets and know-how of these various cooking styles from a home based business.

These are a smattering of a few suggestions. The possibilities for home businesses based on vocational home economics skills and interests are as limitless as people and their creativity.

Women are finding self-employment opportunities an attractive alternative to the job market. The scant research that does exist suggests that women are attracted to small business ownership in larger proportion than men.

Going into business for yourself is demanding and requires a large amount of effort on the part of the entrepreneur. We can now begin to consider what is involved in developing a small business for oneself.

WHY MIGHT SOMEONE START A HOME BASED BUSINESS?

There are numerous reasons and circumstances.

Evolution

For some people it begins because they possess an exceptional skill or talent which they translate into the creation of unique items for their own home and family. They create gifts for special occasions and celebrations. Friends seeing the product wish to have something similar produced for their own use or to give as a special gift. A third person seeing the item wants to have one, too. The creator is asked to make still another one of these very special commodities. A business just naturally seems to evolve from personal contacts who begin placing orders, and the next thing the creator knows, she or he is involved in a business venture. The creator recognizes a market, enjoys the challenge of productions and the sale of the products to customers.

Deliberate Planning

For others the decision is much more deliberate and planned. Personal and family circumstances coupled with economic necessity indicate a person must find a way to earn a living or augment the family's income through a home based enterprise.

With deliberation the future entrepreneur takes pencil and paper in hand and begins to plan out an idea for developing a business activity. The future entrepreneur analyzes his or her talents, capabilities, and skills and considers how these qualities would work in the business.

One may also make a list of one's talents and skills and how they have been applied at home, at school, on a previous job, or in working as a volunteer. The list is then carefully studied to see how these skills and experiences could be used to create a home based business to earn money for oneself. Through careful thinking and deliberate planning one begins to organize one's self and home for the operation of a business.

A decision is reached regarding the kind of business one will operate. A decision is made regarding how that business operation can be accommodated in one's home. Plans are made to adapt the home's facilities for the functioning of a business.

Combining A Home Based Business With Other Employment or Volunteer Services.

Most people are hesitant to start up their own business without a "warm-up" period to try it out on a small scale and to test its reception in the community. You may want to consider such a trial period for your business. You could combine the trial period with other part time work to provide you with some income while you are testing your business. To do this effectively it may be helpful to think of your work day as being divided into time devoted to your part time employment and time devoted to your own business. An ideal arrangement would be to secure a part time job in a field related to your own business--such as one who works part time for an interior decorator, and makes drapes as a home-based business on one's own time. The business contacts made through one's part time job could be a valuable source for clients for one's own business.

When income is not a critical factor in deciding how to spend your time, you may want to consider volunteer service to an organization or agency that may be relevant to your own business. Again, such an arrangement could benefit your business and expand your circle of contacts while serving other worthy goals for your community.

Formulating the Plan

First-- a business needs to be clearly defined in writing to provide direction for the business owner.

Second-- it is essential that the product or service formulated by the would be entrepreneur meet a genuine need that fills its own niche because it is special. Ideas should be for a product or service that has real economic potential capable of enduring over time.

Third-- the entrepreneur will want to gather information from experts and experienced entrepreneurs. Some research will be needed.

Whether the business just seemed to evolve for the entrepreneur, or whether a person began by taking careful definitive steps toward a home based business operation, some judicious thinking, analysis and examination of oneself, one's family and one's life ambitions has to be done.

What does a small business owner do? Everything and anything! A small business owner is required to do a multitude of tasks when operating their own enterprise. Certain personal qualities are definitely an asset for someone in business for themselves. The more of these special qualities a person possesses or is willing to develop, the greater will be his or her chance for success.

Let's examine some of these so called "needed personal qualities":

1. DRIVE
    - you enjoy taking a chance
    - you are a self-starter
    - you have plenty of energy
    - you finish what you start
    - you have courage to take risks
    - you are able to and like to work on your own
    - you enjoy working hard on your own enterprises
2. CLARITY OF THOUGHT
    - you have a thorough plan
    - you seek advice for areas where you lack knowledge and expertise
    - you are capable of making good decisions in a short space of time
    - you have the ability to acquire knowledge about business finance and operations

3. IMAGINATIVE
    - you think of innovative ways to solve problems
    - you have creative ideas that relate to business
4. LEADERSHIP
    - you work well with people
    - you genuinely like people
    - you get along well with people
    - you enjoy taking a leadership role
    - you keep your pledges and you enjoy people's trust
5. ABILITY
    - you have high quality skill performance
    - you perform different tasks simultaneously
    - you keep cool under stressful circumstances

Some of these abilities come fairly naturally to some people. Others need to dedicate some effort for their development. You may find it helpful to truthfully face your character qualities through some of the suggested activities which begin on page 11. Keep in mind that some folks make better employees than business owners.

Entrepreneurs need to feel they have control over their lives, and have the ability to exercise control over the events of their lives. To get a better idea of how much control you feel you hold over your own inner self and the events that shape your life, you may be interested in taking Levenson's Attitude Survey which follows in the activities section.

What is a Small Business Operation? What are the Characteristics of a Small Business?

A small business is run by one or two owners who do the work and make all the decisions affecting the operation and management of a business. Usually there are no more than four employees in a small business operation, and home-run businesses usually find the owner doing everything that is necessary. The home-based business owner does all the work, record keeping, management, and decision making required to make the business function.

Small businesses can usually be started with a small amount of money. Small business usually earns a fairly small income. Nearly two-thirds of all the newly created jobs in the United States between 1969 and 1976 were created by businesses with less than twenty employees, a researcher at the Massachusetts Institute of Technology has reported. Small business operations are an important part of our economic system. According to an article in the Journal of Small Business Management, July, 1982, ninety-seven percent of all businesses are small, small businesses employ fifty-seven percent of the workforce and provide forty-five percent of the Gross National Product.

What You Need to Consider:

Many entrepreneurs enter into a business venture untrained in managerial skills and business practices. Today, centers for information and consultation exist on many more university campuses than were available to small business owners just a decade ago. As someone contemplating a business venture you will probably wish to learn as much as you possibly can about managing your small business venture.

Entrepreneurs wishing training may find a suitable course of study at a college or university. Keep in mind that small businesses need their own custom made organizational theory. Standard business administration education tends to train people for large scale corporate organizations. However, some business administration educational centers are beginning to offer courses tailored more specifically to the needs of the small business owner. Small businesses have unique needs. Watered down corporate practices will not suit these needs and may even prove to be disastrous.

Try brainstorming on paper to help you begin to focus on your own unique business enterprise.

AN EXAMPLE OF AN EXPLORATORY BUSINESS PLAN

Personal Skills

Knitting since age 6

Major projects: Knitted three fisherman sweaters - sold one
Knitted many baby sweater cap sets - sold dozens
Knitted a coat
Knitted many pullovers and cardigans
Knitted many mitten sets - sold many

Management experiences in club organizations

Management of household funds

Figure out income tax return

Raising children

Manage a functioning home

Developed an inventory system to keep pattern books, yarn, and supplies organized.

Personal Abilities

After getting facts, I don't find it too hard to make decisions.

I always finish what I start.

I work fairly quickly and efficiently.

I make a job plan listing daily activities and goals.

I don't tire easily; I have some energy left at day's end.

Application of Skills

PTA officer and Christmas Craft Festival organizer

Club President and Treasurer

Helped a friend organize wool yarn business inventory system

Utilization of Skills in Business

Could teach other's basic knitting skills

Could hold knitting classes

Could make custom knit orders

Could sell yarn spun and dyed by a friend who raises sheep

Kind of Business I Dream of Running

Teaching classes in knitting techniques to any interested person of any age.

Teaching basic skills

Teaching more advanced techniques and designs

Taking special orders for custom design projects.

Taking special orders for items sold in past when operating on an informal basis.

Sell knitting supplies.

Run classes in my living room in evenings, mornings or afternoons according to customer needs.

Adaptation of Home Facilities

Business center located at living room desk for organizing and running business.

Coat closet in living room adapted to store supplies for the business.

SUGGESTED ACTIVITIES

1. Take Levenson's Attitude Survey

Directions:

The following is a series of attitude statements. Each represents a commonly held opinion and there are no right or wrong answers. The intent is to determine the extent to which you agree or disagree with such matters of opinion.

First impressions are usually best in such matters. Read each statement carefully. Then indicate the extent to which you agree or disagree by circling a number after each statement. The numbers and their meaning are indicated below:

If you agree strongly : circle +3
If you agree somewhat : circle +2
If you agree slightly : circle +1

If you disagree slightly : circle -1
If you disagree somewhat : circle -2
If you disagree strongly : circle -3

If you find that the numbers to be used in answering do not adequately indicate your own opinion, use the one which is closest to the way you feel.

1.	Whether or not I get to be a leader depends mostly on my ability.	+3	+2	+1	-1	-2	-3
2.	To a great extent my life is controlled by accidental happenings.	+3	+2	+1	-1	-2	-3
3.	I feel like what happens in my life is mostly determined by powerful people.	+3	+2	+1	-1	-2	-3

4. Whether or not I get into a car accident depends mostly on how good a driver I am. +3 +2 +1 -1 -2 -3

5. When I make plans, I am almost certain to make them work. +3 +2 +1 -1 -2 -3

6. Often there is no chance of protecting my personal interests from bad luck happenings. +3 +2 +1 -1 -2 -3

7. When I get what I want, it's usually because I'm lucky. +3 +2 +1 -1 -2 -3

8. Although I might have good ability, I will not be given leadership responsibilities without appealing to those in positions of power. +3 +2 +1 -1 -2 -3

9. How many friends I have depends on how nice a person I am. +3 +2 +1 -1 -2 -3

10. I have often found that what is going to happen will happen. +3 +2 +1 -1 -2 -3

11. My life is chiefly controlled by powerful people. +3 +2 +1 -1 -2 -3

12. Whether or not I get into a car accident is mostly a matter of luck. +3 +2 +1 -1 -2 -3

13. People like myself have very little chance of protecting our personal interests when they conflict with those of strong pressure groups. +3 +2 +1 -1 -2 -3

14. It's not always wise for me to plan too far ahead because many things turn out to be a matter of good or bad fortune. +3 +2 +1 -1 -2 -3

15. Getting what I want requires pleasing those people above me. +3 +2 +1 -1 -2 -3

16. Whether or not I get to be a leader depends on whether I'm lucky enough to be in the right place at the right time. +3 +2 +1 -1 -2 -3

17. If important people were to decide they didn't like me, I probably wouldn't make many friends. +3 +2 +1 -1 -2 -3

18. I can pretty much determine what will happen in my life. +3 +2 +1 -1 -2 -3

19. I am usually able to protect my personal interests. +3 +2 +1 -1 -2 -3

20. Whether or not I get into a car accident depends mostly on the other driver. +3 +2 +1 -1 -2 -3

21. When I get what I want, it's usually because I worked hard for it. +3 +2 +1 -1 -2 -3

22. In order to have my plans work, I make sure that they fit in with desires of people who have power over me. +3 +2 +1 -1 -2 -3

23. My life is determined by my own actions. +3 +2 +1 -1 -2 -3

24. It's chiefly a matter of fate whether or not I have a few friends. +3 +2 +1 -1 -2 -3

Scoring Key for the Levenson Attitude Survey

I = Belief in internal control

P = Belief in control by powerful other people

C = Belief in control by chance

FIRST -- Add up the points of the circled answers for each of the items whose numbers are listed below:

I	P	C
1	3	2
4	8	6
5	11	7
9	13	10
18	15	12
19	17	14
21	20	16
23	22	24

SECOND -- Add 24 to each of the three sums. You now have three scores, which could range from 0 to 48.

INTERPRETATION: Usually people favor one or two of the scales, but it is possible for a person to score high or low on all three dimensions.

High scores indicate a strong belief in control by each of the three dimensions. Low scores indicate little belief in control by the dimensions.

Levenson's studies indicate that business owners believe that to a large extent they can control the events in their lives.

2. Begin keeping a journal. Remember no one will read your journal unless you want them to do so. Make daily entries in your journal.

   Record your innermost thoughts regarding your hopes and dreams, your ambitions and desires for your business.

   Write down your thoughts and fantasies regarding yourself as a successful business person.

   Write out your more practical plans and ambitions and aspirations for your business.

   Write out what risks may be involved and how you can plan to control these risks.

   Look over your journal writings at least once a month. Examine your entries to see what major themes and thoughts you have been expressing over a period of time.

   Decide what you might need to learn more about in order to make your ideas become a reality. You may need to talk over some of these ideas and plans with a parent, spouse, close friend, teacher, or someone who's opinion you trust and respect.

   Consult with a small business person with whom you are acquainted about those journal entries you are concerned about and reveal that you need some help or advice.

3. Make a list of your skills. What do you do well?

   Think about the expertise you possess from life-long interest and development of skills based on either informal or formal training and practice.

   Think of compliments people have given you about how you have performed certain tasks, or produced some special products.

4. Write out how you can utilize these skills in your own business.

5. Think about the kind of business you see yourself running.

   Write down exactly the kind of business you want to involve yourself in.

   Write out some other possible applications for your skills.

6. Take a good look at your own personal qualifications as an entrepreneur.

   Write down a personal self-evaluation regarding the needed qualities of a small business person.

   a) assertiveness
   b) belief in yourself
   c) ability to work hard
   d) high energy level
   e) ability to perform quality work or service or produce a superior product
   f) enjoyment and love of people

   Which of these areas are strong points?

   Which of these areas will need to be thought about and given some special attention for improvement and development?

   Consider how others see you. Keep attuned to reflections and feedback you get from friends and acquaintances outside your family circle.

7. Make a chart or table matching or comparing your good qualities with those listed as needed by a small business owner.

   Evaluate where you see a need for development of certain qualities.

   List ways you could begin to develop needed qualities.

   Think about how you really want to change certain things about yourself.

   Think about how you can effectively function and accommodate your business and yourself in spite of certain weaknesses, i.e., running low on energy at the end of a busy day.

8. Interview some small business owners in your community, preferably someone running a home-based business.

   Develop a list of questions that would be personally helpful to you in providing you with the kind of information you want.

   Some suggestions for questions:

   a) How and why did they start their business?
   b) Are they glad they are running their own business?
   c) What don't they like about being in business for themselves?
   d) What advice can they give?
   e) What is most difficult for them in running their own business, how do they compensate for this?
   f) What kinds of things do they have to do in running the business?

g) How do their family members cooperate with their enterprise?
h) Do they consider their business a success?
i) Would they do it again?
j) Would they encourage others to run a home based business?
k) Would they recommend any educational programs or books to read that might help you reach your goals?

9. Begin thinking of your family members and how your own business operated in your home and theirs will affect all of you.

   Interview each one of them privately to gain some insight on how they feel about your proposed enterprise.

   Hold a family council meeting when you have definite plans and see how they react.

   Think of advantages and positive effects for your family members through your operation of a home run business.

10. You might find it helpful to read the article "Do You Have What It Takes," by Marlys Harris which appeared in the magazine Money, the March, 1978 issue on pages 49 through 54.

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SECTION II

PLANNING YOUR HOME BASED BUSINESS

OBJECTIVES

1. Analyze your reasons for wanting to run your own business
2. Learn where to contact sources of expertise and information that will be valuable to you
3. Develop your business plan
4. Investigate: trends, potential customers, competition

SECTION II

PLANNING YOUR HOME BASED BUSINESS

There are a number of specific components you would be wise to analyze when you begin planning your home-based business. One set of components you considered in the first unit were your own personal qualifications and characteristics. Another important related component you began considering was your family.

Family Considerations

You will need to assess your family's apparent absence or presence of enthusiasm shown concerning your idea of operating a home based business. Each family member will have his or her own unique feelings concerning your involvement in operating a small business. After all, it is their home, too. It would be an asset to you personally and to your business, if each one of your family were able to show support, enthusiasm, and a willingness to help you when the occasion presents itself. A family that shows resentment toward your ideas and plans, or feels threatened by your occupation of time and effort in your own business venture, will not be very tolerant of the many demands your business will make on you. They may resent the intrusions and infringement into their home and lifestyle that a home-based business is surely going to make.

If your family is not showing the support and enthusiasm you would like to see from them, you will want to hold a family council meeting. Such a meeting might be desirable even if your family is enthusiastic about your plans.

You could try out your business plan on them before you see a banker or other professional. Your family may prove to be tougher to sell on the ideas of your plans than a business professional. They might have some valuable suggestions and show you some areas that you need to be thinking about in more depth, gathering additional information.

Point out some of the advantages of a home-based business both for yourself and for them. You can set your own hours, you will be home when the children return from school, commuting time is lessened and transportation costs will be saved as the family may be better able to manage with just one car.

If it is the kind of business that will be enhanced by exposure at exhibits and fairs, family members will have the opportunity to widen their horizons through traveling and working together. They will be meeting people and learning new skills. The children can feel proud to have someone in their family who has the courage to take on the responsibility of operating their very own business. This will be an opportunity for them to learn how business functions and about economics. They will be able to learn about decision making processes.

Contemporary children have little opportunity to experience the world of work as they are isolated from it until well into their adolescent years.

Home Planning Considerations

It would be prudent for you to scrutinize your home, carefully considering the feasibility of operating a business in it. You will want to consider the best place in your home to locate the business.

If you need a workshop, you will have to consider where that space is available in your home that can best be adapted to accommodate your work. Supplies, special equipment and storage space needs consideration as well as the workspace. You will have to consider placement of these ingredients for efficient utilization in your workplace.

You ought to consider the nature of your business and how to fit it into your home and family situation so that you can function effectively and comfortably as an entrepreneur. Service type businesses requiring telephone contact with customers will need to have telephone equipment and customer records located in a private area away from the hub-bub of intense family living activity areas.

No matter what the nature of your business, it will require some record keeping. You will need to consider where is the best place for your record keeping activities and storage.

If customers will be coming to your home to transact business you will want to consider their needs. How will your family and home be required to adapt to meet these customer considerations?

It might be a good idea to walk yourself through your home situation, trying to see it with an impersonal eye. Consider where the customer will park his or her car. Take a walk from the customer's point of arrival at your homesite to your entry door. Look for things that obviously need improvement, for example, a solid, safe walkway to your door. If improvements are needed, how costly will it be to make them?

If you are planning to locate a workshop in a remote area of your home, consider how you and your customer will feel if they must walk past bedroom and bathroom doors in the process of arriving at the workshop. It might be well to consider having a customer receiving area closer to the entry door where business may be transacted. Perhaps a portion of the living room or entry hall could be adapted to serve the purpose of customer negotiation and business transaction center.

Children often clutter an entry area with toys, clothing, overshoes and other "necessary" paraphernalia. There are inexpensive ways you can encourage children to organize their clutter. For example, hooks at a convenient height placement so that the children can easily hang up the coat or jacket. Have a handy storage shelf for convenient storage of books, toys, equipment, etc. Provide a storage hamper for playshoes, sneakers, overshoes, etc. These ideas may prove useful in keeping the entry area neat. Even when the children forget, convenience of storage will help you to quickly pick up the clutter and stow it before opening the door.

It would be useful to draw a floor plan of the room or room area you designate for use in your business operation. Draw your equipment and/or furniture to scale on heavy solid paper, cut it out and push it around on the floor plan to help you determine the best location for your furniture and/or equipment for a most efficient workplace. See Figure 2.1 and 2.2. Consider how to childproof if that is a necessary consideration.

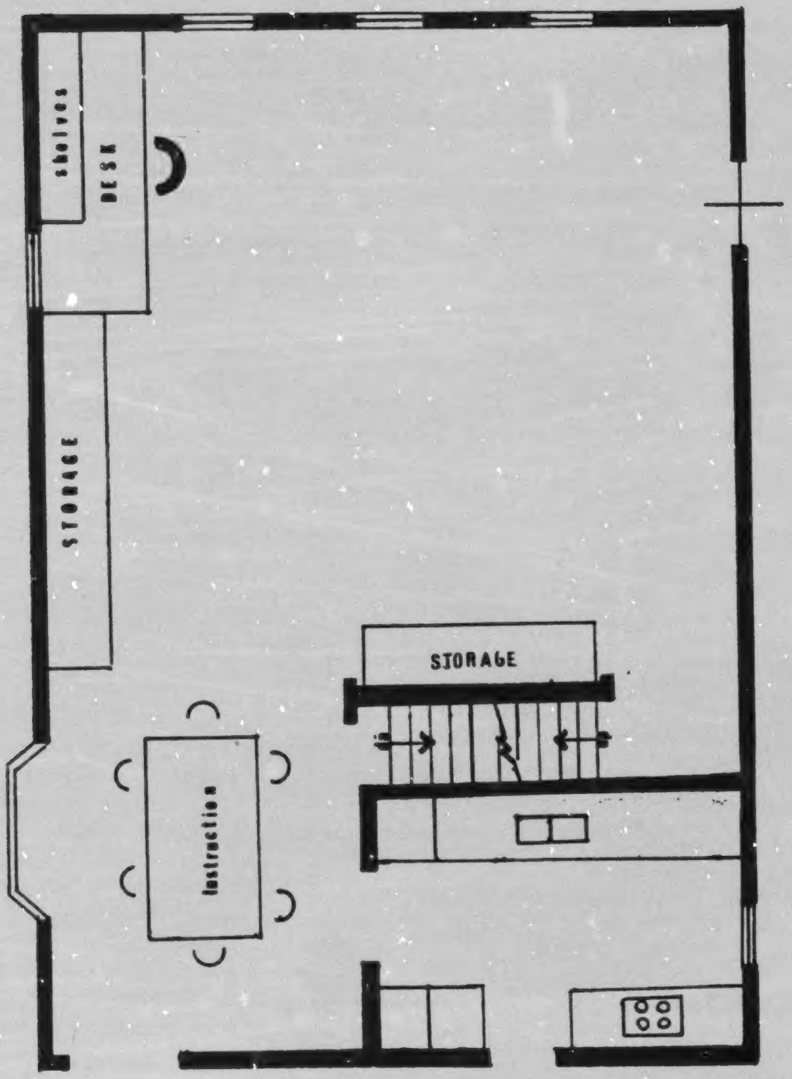
You will want to check on having an insurance rider added to your homeowner's policy to cover the risk of customers being injured while on your property.

Neighborhood and Community Considerations

Your community has a certain aura to it. It would be to your advantage to analyze the community in which you live. Is it a conservative or liberal, friendly or aloof place in which to live? The Chamber of Commerce might be a good place to start to find out more about the kind of community in which you live. They should be able to tell you about the population, if it is expanding or diminishing, or aging, the occupational status of the

Figure 2.1 FLOOR PLAN ACCOMMODATING BUSINESS IN CURRENT HOME SITUATION

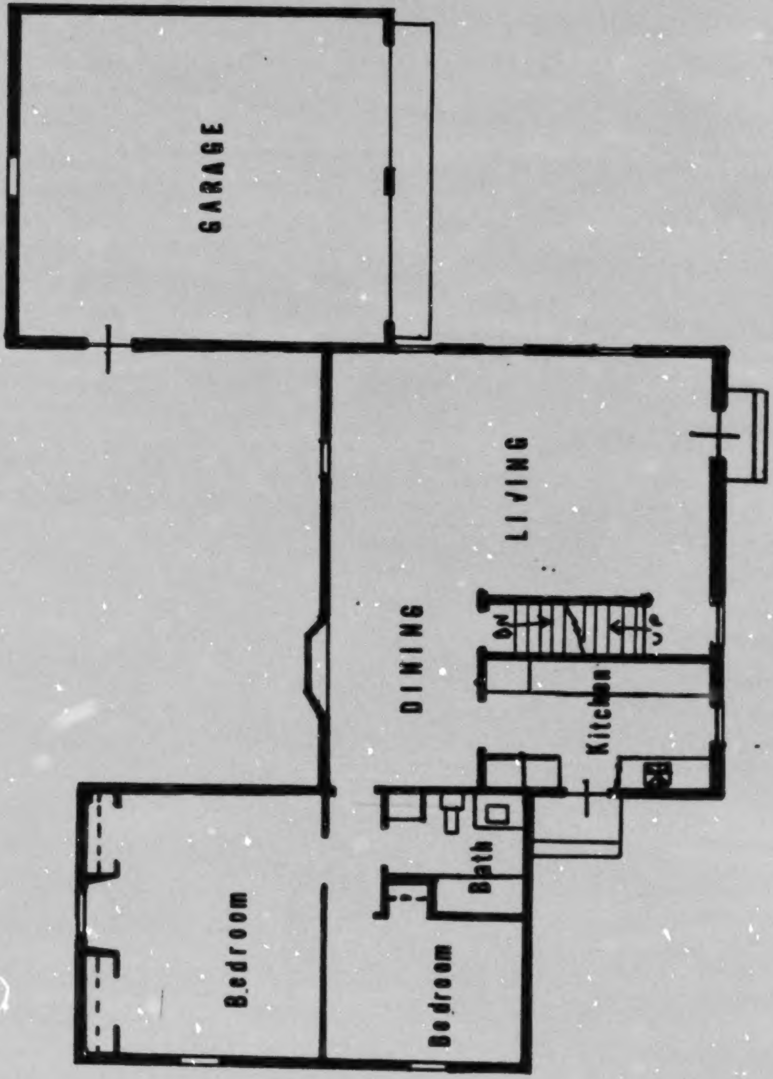
A beginning craft-oriented instruction business accommodated in the living and dining rooms of the entrepreneur's home.


shelves
DESK
STORAGE
STORAGE
Instruction

The desk serves as the planning center.
The wall units hold needed supplies.
The dining table serves as the instruction center.

Figure 2.2 ACCOMMODATING A GROWING BUSINESS TO THE HOME

A successful business, experiencing growth, could be housed in the garage, remodeled to accommodate the business.


GARAGE
LIVING
DINING
DN
UP
Kitchen
Bath
Bedroom
Bedroom

residents, their general income level, and about the general economic status of business in your community. All of this may or may not affect what you have in mind. These are useful pieces of information for you to have and will give you a better picture of the kinds of people who are your potential customers.

Potential Customers

Businesses tend to attract certain kinds of people as customers. Many times business people who analyze their customers discover they have distinct similarities regarding educational background, income level, age and occupational status. It would be a good idea to think about the kind of people you have in mind as potential customers. Your business plan will be clearer if you have a good idea about the kinds of people you are trying to attract as customers. Who are you aiming to please? Contacting the local Chamber of Commerce will help you see if there are sufficient numbers of people located in your community to help support your business operation.

Perhaps you can get a feel for the potential customers in your community by talking to acquaintances, neighbors, and other business people about your business plans and ideas. Circulating about your community and talking to people, as the opportunities present themselves, can give you some worthwhile insights and information, both helpful and useful in planning your business.

Planning the Business

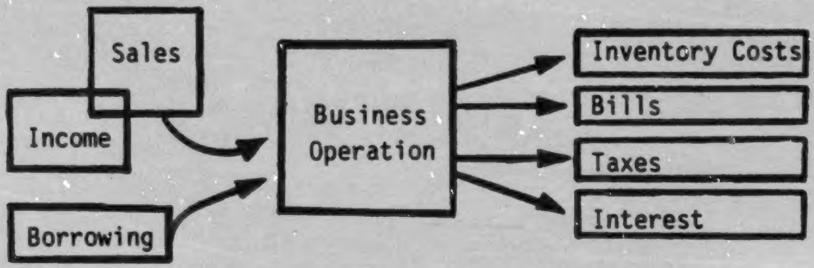
It might be worthwhile to set an appointment with a local bank branch manager and informally discuss your business plans; the purpose of this discussion being to gain information useful in setting or drawing up your business plan, and getting the bank branch manager's opinions regarding the general business health of your community and the need for the kind of business you envision operating. The bank branch manager may be a useful resource for information regarding potential customers and the feasibility of your business succeeding.

Be very clear about the kind of business you plan to run. Exactly what will your business do? What services will it offer? What products will it sell? These decisions help you make profits by defining the scope of your business so you can make better decisions about supplies and inventory needed, along with decisions affecting the application of your time, effort and energy.

Financial Planning

Financial planning is crucial for a successful business operation. You will need to consider the amount of money actually needed to start your business. Another very important component of planning and budgeting is the cash flow. Very simply stated, cash flow is the influx of money into your business from sales or borrowing to meet the expenses of operating your business, causing cash to flow out of it. See Figure 2.3 below.

Figure 2.3 CASH FLOW



Information Planning

It may be at this point you will actively seek information offered through continuing education resources, your state's small business resources (most likely a part of the Department of Commerce) and the United States Small Business Administration.

Competition

In making your business plan it will be advisable to take a look at your competitors--who they are and what exactly they do. What special kinds of things can you do to make your business unique? What can you offer customers to attract them to your business instead of your competitor's business? What are your competitor's prices? Can you make your prices more attractive and still make a profit?

Gathering the answers to these questions will take time and effort; however, you will be able to formulate a better business plan which exactly articulates and defines: what it is that your business will do.

Moral Considerations

The kind of business you plan to operate will have a wider impact than you might imagine. Your choice of a business venture is endorsing a particular product, or idea, or service. Your business activities will affect your community and the world beyond it. In other words, your business enterprise will also have moral aspects that need consideration.

Will your business develop a product or service for other's well-being? How will the physical activities of your business affect the natural environment? Will products be produced that cause deterioration of the environment,if they are not disposed of properly,or used correctly? Will your business utilize substances or chemicals that could be harmful to the environment?

An example of this might be an artistic textile process used in creating wall hangings. How do you responsibly dispose of the dye products and other chemicals used in your business to avoid contamination of the environment? This may also be a necessary element to consider when planning your business operation.

Summary

Subsequent sections take a closer look at acquiring starting capital, types of business structure, taxes, and other business components.

Planning activities for the home entrepreneur are more than just business related planning activities; they must also take into account the impact of the business on family, household and neighborhood.

A business plan is just as essential to the home entrepreneur as it is for any serious business person who is striving for a successful functioning business. Long range planning looks beyond the first year and into the future of the enterprise. Business experts recommend that long range planning cover a five year period with periodic reevaluation and reassessment.

SOURCES FOR INFORMATION TO HELP YOU WITH YOUR BUSINESS PLANS

Free information can be received from:

The U.S. Small Business Administration

A university small business development center

The public library - look closely at their reference and documents section

An association of trade or crafts people

Chamber of Commerce

Experienced business people

Potential suppliers of goods and services for your business

State Department of Business Development

Professional and Financial Advisors

When your business plan is complete, seek the advice and evaluation of certain professional and financial advisors. You may have to pay them for their time and information.

A lawyer -	for legal advice regarding the best business form for your business tax information business laws
An accountant -	for advice on a good record keeping system explanation of financial statements help with income tax forms advice concerning business finances
An insurance agent -	for advice on added coverage to protect yourself when customers or clients come to your home to transact business
A banker -	for financial management advice for loan information

SUGGESTED ACTIVITIES

1. Evaluate, analyze and investigate your reasons for wanting to run your own business.
    a. Make a list of your reasons--remember, "for the fun of it" and self-fulfillment are valid reasons.
    b. What does your list make you want to investigate more thoroughly?
    c. What advantages do you see for yourself in running a business of your own?
    d. Write down what you need to learn more about? Where can you find this information?

2. Begin to make a business plan.

    A business plan should be viewed as a guideline for yourself as well as a communication tool for use with professionals you will be encountering and talking to in setting your business in motion.

    a. Make a statement about the exact nature of your business. What is its purpose. Exactly what specific services will it offer or specific products will it sell?
    b. Construct a customer description. What kinds of people will you be trying to attract to use your business?
    c. State your reasons for wanting to operate your business within your home.
    d. State how you plan to promote your business. How will you go about informing people in your community about your business service or product?
    e. Describe the business image you want to project. What do you want your customers to know about you, and how will you attract them to your special business?
    f. Determine how you will set your prices. Factoring in the costs of materials and supplies, your operating expenses, taxes, your labor and the amount of profit you want ---- How Much Do You Have To Charge?

3. Make a floor plan for the area in your home that you plan to devote to operating your business.
    a. Indicate the specific arrangements for your equipment and supplies.
    b. Think about the physical arrangements of your work area, will it allow you to work efficiently for highest production with little wasted energy and motion?
        1) Will storage be adjacent or near the work area for convenience?

   2) Will tools, supplies and materials be easily accessible at the point they are to be used?
   3) Can you have convenient storage shelves and/or peg boards for accessible storage of items used at your work area?

4. Take a walk through your property and home with pencil and paper in hand. See it from the impersonal viewpoint of your customer.
   a. Determine what improvements might be necessary and how costly they might be.
   b. Determine the best location for doing the work of your business.
   c. Determine if customers will need to come to your home.
   d. Decide where might be the best customer reception location.

5. Do an informal evaluation of your community as a business location. Check with either the local Chamber of Commerce or a bank branch manager regarding:
   a. population - age, increasing or diminishing size, average income and occupational status, percent of employed women
   b. business and industry - how economically healthy is the business status of the community?
      - will that affect the business you are planning to operate?

6. Make an appointment to interview:
   a. your insurance agent, discussing your business plans and your insurance coverage needs
   b. a lawyer for legal advice in forming and running your business
   c. an accountant for financial record keeping advice
   d. a banker for financial advice and loan information

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SECTION III

LEGAL CONSIDERATIONS

OBJECTIVES

1. Evaluate types of business ownership most advantageous for your needs.
2. Explain all the regulations related to the business you chose.
3. Identify the rules which should be followed to meet government requirements.
4. Understand the taxes to which your business enterprise is subjected.

SECTION III

LEGAL CONSIDERATIONS

Business Structures

Once you decide to establish a home based business your first consideration will be the type of business organization to use. There are three main forms of business ownership:

- sole proprietorship
- partnership
- corporation

Sole Proprietorship

Most small businesses operate as sole proprietorships. This is the simplest form of organization with the greatest freedom from regulation and paperwork. A sole proprietorship is a business owned by one person. Owners of this form of business are free to make their own business decisions. They do not have to consult others in the business. Therefore, they can decide quickly and make changes easily. Some advantages of a sole proprietorship are:

- minimum legal restrictions
- less paperwork
- owner alone receives profits
- business easily discontinued

Disadvantages of a Sole Proprietorship:

- unlimited personal liability for all business debts
- limited ability to raise capital
- termination of business at owner's death

Partnership

A partnership is a business owned by two or more people. It is similar to a sole proprietorship except that two or more people are involved. The partners share in raising money, making decisions, and taking profits. They are all responsible for business failure and debts.

Advantages of partnership:

- simple to establish
- draws upon the financial strength of all partners
- draws upon the managerial ability of all partners
- draws upon the creativity of all partners
- profits not directly taxed

Disadvantages of partnership:

- unlimited personal liability for the firm's debts
- death of a partner causes the business to terminate
- commitment of obligation can be made by any one of the firm's partners

The partnership is formed by virtue of an agreement entered into by each partner. This agreement may be informal, but it is advisable to have a written agreement drawn up between all partners. Usually partners write an agreement before their business begins. The partners decide ahead of time what duties each one will have and what decisions each one will make. They have to agree how to divide the profits and share any losses. They have also to decide what to do in case either of them wants to leave the business.

Corporation

Another form of business ownership is a corporation. It is the most complex form of business organization. A corporation is a group of owners (stockholders) that acts as a single business unit. The people who own pieces of the business (shares) are called "stockholders." Stockholders collect part of the corporation's profit, depending on the number of shares they own.

The stockholders elect the board of directors and vote on important matters. The board of directors make general business policy. It chooses officers to make the day-to-day business decisions.

Corporations get money to run the business by selling stock. If the corporation has a business loss, it must take responsibility for its bills, but the individual stockholders are protected by law from losing their personal belongings.

It is more costly and difficult to form a corporation than any other type of business. The state requires that special papers be filed and certain fees be paid. Corporations must also pay more kinds of taxes than sole proprietorships or partnerships.

Advantages of a corporation:

- liability limited to the amount paid by owners for their stock share
- continuity of corporation unaffected by an owner's death
- continuity of corporation unaffected by stock transfer

Disadvantages of a corporation:

- extensive record keeping
- close regulation
- double taxation
  - taxed on profits
  - taxes on dividends paid to owners

Zoning Regulations

The first known zoning law was passed in ancient Rome to prevent industries from locating too near the central forum of the city. This established the principle that private property can be restricted in consideration of the general welfare.

Most communities now have zoning ordinances which restrict the size and location of buildings to prevent crowding and encourage the most appropriate use of the land. It is imperative that a person who wants to start a home based business be familiar with zoning regulations and all legal restrictions must be carefully followed.

The purposes of the zoning regulations are: to promote health, safety, comfort, convenience and general welfare of the community. The features of nature within the community are among its most important assets. Zoning ordinances include considerations such as commercial, industrial, agricultural, educational, environmental uses; residential housing; parking and open space; transportation and public facilities. The community is usually divided into several classes of districts for the purpose of applying the provisions of zoning ordinances. The boundaries of the districts are designated on the zoning district map which is made part of the zoning ordinance.

Zoning is regulated at the local level. Before purchasing or renting any type of building for commercial purposes, be sure to check the local municipality to assure that your particular type of business can be operated at the site you have chosen. Zoning regulations and a zoning district map could be obtained from the Department of Public Works and Buildings in the community.

Regulations on Small Businesses

Depending on the kind of home based business and the local and state laws, home-based business owners may have to get certain business licenses before starting a business. For example, if you operate a restaurant or cafeteria, serve food in your bar or from your mobile food unit, you will need a public eating and drinking place license. Contact your local Chamber of Commerce to learn the kind of taxes you must pay, the licenses you must get, and the regulations you will need to meet. If you are interested in selling products to the state, you must submit an application for admission to the bidder's list.

Some labor laws related to home based business could be:

Minimum Wage Act--a minimum rate of $3.35 per hour must be paid to both male and female workers.

Overtime Wages--all non-exempt employees must be paid 1½ times their regular hourly rate for hours worked in excess of 40 hours weekly.

Equal Pay Law--male and female employees must receive the same wages provided they have equal skills, effort, responsibilities and working conditions.

Wage Payment and Collection Law--employers must pay all wages, other than fringe benefits and wage supplements due to employees, on regularly scheduled paydays designated in advance by the employer.

Employment Certificate--no minor (individual under 18 years of age) shall be employed without an employment certificate.

Child Labor Laws--male and female minors may not work during school vacation more than 8 hours per day, six days a week for a maximum of 24 hours per week.

Don't promise more than you can deliver when making a sale. Nearly every state has very specific warranty rules on what constitutes a promise when you make a sale, whether you're offering a product or a service. As a home based businessperson, you should be aware of these regulations; a buyer who successfully sues for breach of warranty is entitled to receive three different cumulative types of damages.

Building inspections are also an important regulation from the state. The regulation provides for the safety and health of all persons employed, housed, or assembled there. Before any building can be opened for occupancy, the Department of Labor and Industry must be contacted.

Tax Regulations

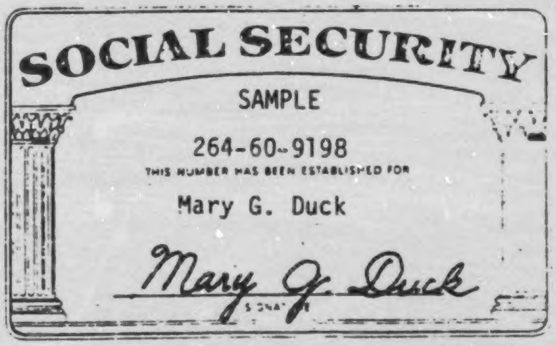
The community in which you operate your business will require you to register as a resident business and employer. You will be held responsible for withholding the wage and occupational privilege taxes.

The state imposes several taxes on employers and employees. Corporate taxes must be paid if the business is incorporated. As a home based owner, itemized below are taxes you are most likely to encounter. Be sure to ask a representative of the Department of Revenue or your accountant about these and other taxes that must be paid or documents that must be filed.

Social Security Tax

Every employee in an occupation covered by the social security law is required to have a social security card. The number on each person's social security card is not only his/her social security tax account number but also his/her federal income tax account number. The official form, Form SS-5, is used in applying for an account number. A social security card is issued to anyone upon request, without charge, by the Social Security Administration. See Figure 3.1 below.

Figure 3.1 YOUR SOCIAL SECURITY CARD



SOCIAL SECURITY

SAMPLE

264-60-9198

THIS NUMBER HAS BEEN ESTABLISHED FOR

Mary G. Duck

Mary G. Duck

SIGNATURE

Nearly all self-employment is covered by Social Security. You're self-employed if you engage in a trade, business, or profession, either by yourself or as a partner. You report your earnings for Social Security at the time you file your federal income tax return. If you pay a household worker $50. or more in cash wages during a three month calendar quarter, you must deduct Social Security taxes and report the wages.

If you and your spouse operate a business as a true partnership or joint venture, you each report your share of the business profits as net earnings on separate schedules, even though you file a joint income tax return. The amount each of you should report depends on your agreement. Each of you will get Social Security credit if each has net earnings of $400. or more.

A parent and child may be partners or joint venturers. In either case, both are self-employed and each should report his or her share of the business profits as net earnings.

If you have questions about Social Security and income from self-employment, or about other Social Security matters, get in touch with any Social Security office. You can find the address of the nearest office in the telephone book under "Social Security Administration," or you can ask at your post office.

Personal Income Tax

Personal income tax is based upon wages, salaries, dividends, interest, net gains from disposition of property, and net profits from business. If you operate as a sole proprietor or partnership, you must file an individual income tax return and also a declaration of estimated tax. Furthermore, if you have employees, you are required to withhold state income tax from their paychecks and file a monthly, semi-monthly or quarterly return with payment to the Department of Revenue. You must also file Federal Internal Revenue service Form W-3, an annual Reconciliation Statement.

Corporate Net Income Tax

Corporations are subject to a corporate net income tax for doing business in the state. The tax rate is a certain percent of federal taxable income. It is advisable to consult an attorney or an accountant to determine the exact filing requirements applicable to your business.

Unemployment Compensation Tax

If you employ one or more persons, you may be liable for paying the unemployment compensation tax. This fund pays benefits to persons who become unemployed through involuntary causes. The Office of Employment Security has field accounting offices in each county that can help you with unemployment compensation questions.

Worker's Compensation

All employers are subject to the provisions of the Worker's Compensation Act which protects employers from liability for work-related injuries and disease to employees. The employer is responsible for providing this insurance. You must have Worker's Compensation coverage if you have any employees at the initial stages of operation.

Sales and Use Tax

Retailers must collect the retail sales and use tax at the time of sale and forward it to the Department of Revenue at specified intervals. Some miscellaneous taxes in the state include cigarette, drug, and motor carrier road tax.

Federal tax codes and regulations vary with the legal form or nature of your business. The Internal Revenue Service Office can assist you with helpful publications and supply you with all the federal tax forms. Every employer is required to have an employer's identification number to identify his or her business.

Keeping accurate employee records is also required by the Department of Labor and Industry, Office of Employment Security. Each worker's record should have the following information:

- Social Security number
- full name
- wage rate (whether hourly, daily or piece rate; weekly, monthly or annual salary)
- total remuneration paid for each pay period by type of payment (cash and cash value of payments in kind)

- traveling or business expenses actually incurred and accounted for, including dates expenses were incurred and paid by employer
- place of employment
- full-time scheduled hours
- daily attendance record, showing actual dates worked and time lost due to reasons other than lack of work
- date and reasons for an employee leaving your company; all employee records are open for inspection and transcription by authorized representatives of the Office of Employment Security

SUGGESTED ACTIVITIES

1. List all of the advantages and disadvantages of various business ownerships.
2. Evaluate and rate those advantages and disadvantages, and then make your decision (pick one with the most advantages for your need).
3. If you decide to own a partnership, go and find your partner from your friends or classmates, then write up a short agreement describing:
    - how the job will be divided
    - how the profits will be shared
    - what will happen if one person wants to leave the partnership
4. Call, write, or visit to ask for:
    - community zoning regulations from local government
    - regulations of small business from the Small Business Administration, U.S. Department of Labor
    - tax regulations from local, state, and federal government

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SECTION IV

MONEY TO START: WHERE DO YOU FIND IT?

OBJECTIVES

1. Identify all possible sources of money to start your home-based business.
2. Explain the procedures of applying for a business loan.
3. Complete the forms to obtain a business loan including: personal information, business description, and financial information.

COMMERCIAL LOANS

SECTION IV

MONEY TO START: WHERE DO YOU FIND IT?

You have decided upon the ownership structure for your home based business and have formulated your plans for it. The next step is to decide where and how to get the money (starting capital) for setting your business enterprise into motion. This will need your careful consideration. First, think about the money that is closest and most available to you. Then, consider all the possible money resources that you can tap.

Your Own Money

You may put your savings into your home-based business. You can also get some cash by selling your car (or extra ones) or other belongings if you need to.

Loans and Investments From Family and Friends

You may get a personal loan from a relative or friend interest free. If you chose a partnership your partner will also put some of his/her money into the business.

If all the money at hand is still not enough, or your friends and relatives just are unable to help right now, then you can go to a lender--a bank or government agency to get a business loan.

Banks and Credit Unions

To get a business loan from a bank, you need to present some of your property as collateral to the bank. Collateral is a valuable possession like a house or car that is given as a pledge that the debt will be paid. If the loan is not repaid, the bank may sell the possession to recover the money it lent. If you are a member of a credit union, you may borrow money there. Figure 4.1 is an example of an application form for a business loan.

The Small Business Administration

The Small Business Administration (SBA) may also help you, especially if you can't get a bank loan. The SBA lends money directly to small business owners and helps them borrow money from banks.

Figure 4.1 SAMPLE APPLICATION FOR A BUSINESS LOAN

HAPPY VALLEY BANK

APPLICATION FOR BUSINESS LOAN

Date: ____________

Borrower ______________________________

Address ______________________________

Loan Requested $ ______________ Debt to Bank will be $ ______________

Unsecured ( ) Secured ( )

Collateral ______________________________

Value of Collateral will be $ ______________________________

Guaranteed By ______________________________

Demand ( ) Time No. Days ______________ Rate of Interest ______________

Payment Program ______________________________

Purpose of Loan ______________________________

____

Deposit Relationship

Authorization

For the purpose of procuring credit from Happy Valley Bank, the undersigned hereby confirms that I/we have read and understand the foregoing; that it is true, accurate, and complete to the best of my/our knowledge and belief. I/we authorize Happy Valley Bank to make whatever credit inquiries it deems necessary in connection with this credit application or in the course of review or collection of any credit extended in reliance on this application, I authorize and instruct any person or consumer reporting agency to compile and furnish Happy Valley Bank any information it may have or obtain in response to such credit inquiries.

______________________ ______________________
Applicant's Signature Applicant's Signature

FOR BANK USE ONLY

Approved By ______________________ Date ______________________

Sr. Loan Committee ______________ Regional Board ______________ Joint Board ______________

Notified of action taken / / Oral ______________ Written ______________

Remarks ______________________________

____

____

Business Loans

Most entrepreneurs apply for business loans to get at least some of the money they need to start their business. With a business loan, you have to pay back a part of the loan money every month, plus a certain percentage of interest. Interest is the extra money you pay for the privilege of using someone else's money. The larger amount of your own money you put into your home-based business, the less loan money and the less interest you will need to pay back.

Business Loan Information

In order to get a business loan you will need to provide a lot of information to prove that you are a good business risk, information such as your personal background and qualifications, a clear business description, and a financial plan.

Personal Background Information

You will be expected to tell the lender about your work and business experience, as well as your personal financial situation. You will need to show that you have facts concerning your home-based business and possess good business sense. You will be expected to put some of your own money into your business enterprise.

For example, Mary is planning to start a home-based business. The amount of money she has on hand is not enough to get the business started, so Mary will apply for a loan from the Happy Valley Bank. She wrote this resume:

> "I am planning to open a special craft service center in my own home. I have $5,000.00 to invest in this business. A relative has offered to lend me $2,500.00. Initially I will have $7,500.00 to invest in my business. However, I estimate I will need a total of $12,500.00 to initiate the operation of my business. I will, therefore, need to borrow an additional $5,000.00.
>
> "I have taught a fourth grade class in the local elementary school since graduating from college eight years ago.
>
> "I have excellent craft skills which I acquired through home economics courses, and have perfected through constant practice during my spare time. Creating and designing unique craft items is my specialty.
>
> "I have demonstrated good business ability through being the school manager of fund raising projects for the past five years."

Business Description

Every new business begins with an idea. Your next step in getting your loan is to put your ideas into writing by preparing a written description of your business. Your business description should tell:

- the name of your business
- the scope and purpose of your business
- the services and products to be provided by your business
- the specialties to be offered by your business, how it will be unique
- your plans for the growth of your business

The following is a description Mary wrote about her home-based business.

> The name of the craft service center will be the "Maple Leaf." The store will be open 9:00 a.m. to 8:00 p.m., six days a week. It will sell products, unfinished-products, and various materials for making crafts. It will also provide special services for customers. The Maple Leaf will be located in my home at 123 North Maple Drive. I plan to remodel my home to accommodate this business. I estimate that this will cost $3,000.00.
>
> I will have an employee working in the craft center as a clerk. I will teach craft skills to customers in addition to providing clerk service.
>
> If I can get this loan from your bank I plan to open the Maple Leaf by September 1.

Financial Information About Your Business

To get a business loan, you will need to give the lender at least two kinds of financial information about your business. First, you need to show how much you expect to earn and spend during the first year. This information gives the bank an idea of whether your business will succeed. It lets the bank know if your business will bring in enough revenue for you to earn a profit and to pay off your loan. Second, you need to fill out a form (statement of financial need) telling the bank how much money you need to borrow.

Mary predicts the profit for her business during the first year as shown in Figure 4.2.

Figure 4.2 SAMPLE PROFIT/LOSS STATEMENT

Profit/Loss Statement

		Sept. 1, 1982 - Aug. 31, 1983	
Revenues			
		$	%
Products sold		$23,500.00	
Materials sold		$23,500.00	
Services to customers		$ 8,000.00	
	Total	$55,000.00	100%
Expenses			
Salary for an employee		$ 9,000.00	
Utilities		$ 1,200.00	
Supplies		$20,000.00	
Advertising		$ 1,200.00	
Others		$ 2,000.00	
	Total	$33,400.00	61%
Net Profit (including my salary and income taxes)		$21,600.00	39%

Evaluation of Needs

A new business will usually accumulate some expenses before it can begin providing services or collecting money. At first a business will spend more than it makes. It will need money to support the start-up operation. That is why most businesspersons apply for a business loan to help them get started. As the business gets established it should collect more money than it spends. The owner can use the profit to pay back money that was borrowed. Interest on loans is a major business expense and needs careful consideration by the entrepreneur.

Statement of Financial Need

On this form you will need to show the total cash on hand that you have, the total expenses you estimate that you will need for the first few months of operating your home-based business, and finally, figure how much you will need to borrow from the bank.

Your total cash on hand includes your savings and any loans from relatives or friends. Your total expenses include start-up expenses (money needed right at the beginning to open your business) and operating expenses (money needed after start-up to run your business every month). By subtracting the total money on hand from the total estimated expenses, you can calculate the total loan money needed. The formula for the computation is:

Total expenses - total money on hand = total loan money needed

See Figure 4.3 on the following page.

Figure 4.3 SAMPLE FINANCIAL NEED STATEMENT

Financial Need Statement

Expenses
(for first three months)

Start-up Expenses

Repairs and Renovations	$3,000
Equipment and Furniture	$2,000
Supplies and Inventory	$2,000
Advertising	$ 150
Others	$ 350
Total start-up expenses	$7,500.00

Operating Expenses

Salary for an employee	$ 720 x 3 =	$2,160
Utilities	$ 40 x 3 =	$ 120
Supplies and Inventory	$1,000 x 3 =	$3,000
Advertising	$ 70 x 3 =	$ 210
Others	$ 100 x 3 =	$ 300
Total operating expenses		$5,790.00

Total Expenses $________________
(for first three months)

Money On Hand

Owner's Cash On Hand
$5,000

Loan From Relative
$2,500

Total Money On Hand
$________________

Total Expenses
$________________

Total Money On Hand
$________________

Total Money Needed
$________________

Would you help her to calculate the total loan money she will need?

SUGGESTED ACTIVITIES

1. Complete a resume of your own personal background information and description of your home-based business to get a business loan to start your business.

2. Using this statement of financial need form as a guide, (a) estimate the start-up expenses and the operating expenses for starting your home-based business; (b) figure out how much money on hand you have; and (c) calculate how much loan money you need.

Financial Need Statement	
Expenses (for first three months)	Money on Hand
Start-up Expenses Repairs and Renovations $ Equipment and Furniture $ Supplies and Inventory $ Advertising $ Others $ Total start-up expenses $ ________	Owner's Cash On Hand $ Loan From Relative $ Total Money On Hand $ ____________
Operating Expenses Salary for an employee $ x 3 = $ Utilities $ x 3 = $ Supplies & Inventory $ x 3 = $ Advertising $ X 3 = $ Others $ x 3 = $ Total operating expenses $ ________ Total Expenses $ ____________ (for first three months)	Total Expenses $ ____________ Total Money On Hand $ ____________ Total Money Needed $ ____________

3. Make a list for yourself of all the possible sources of money that you may have. Enumerate all the possible advantages and disadvantages to yourself in using each source.

Money Source	Advantages	Disadvantages
1.		
2.		
3.		
4.		

4. a) Begin shopping for loans.
   b) Compare interest rates.
   c) Compare obligations and risks associated with borrowing from each institution.

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SECTION V

ORGANIZING THE WORK OF YOUR BUSINESS

The effective management of a home-based business depends upon (1) organizing your work area, (2) organizing the work activities, and (3) organizing your daily time schedule. The term "organizing" means to think through, consider and give order to, and apply your experiences to evaluate the results to make needed improvements. Organizing is a continuous activity that a conscientious entrepreneur keeps in one's mind. Figure 5.1 below illustrates what is involved in organizing one's work in a graphic, step-by-step procedure.

Figure 5.1 ORGANIZING YOUR WORK

STEP 1. Consider the work to be done.

STEP 2. Decide what is most important of the work to be done.

STEP 3. Decide if any of the work must be done before other parts are done.

STEP 4. Decide if any parts of the work to be done can be done only at certain times or in a certain place.

STEP 5. Think about how your energy cycles and available resources relate to the various parts of the work to be done.

STEP 6. Decide what you will do first, second, third, etc., and prepare to do it.

STEP 7. Do the work as you decided, but think about things you might do in other ways to save time, energy, or other resources. Flexibly alter your plan if an opportunity arises to do some of the work in other ways.

STEP 8. As you do the work decide if your plan worked well for you, or not. What parts need to be changed? Why do these parts need to be changed?

STEP 9. Change your work plan as a result of your decisions in STEP 8.

When you are organizing your work place you may realize that the work can be done best in only one area of your home.

EXAMPLE

Clothing repair and construction work needs a variety of pieces of equipment and tools which can be arranged together to make the work flow easily. If you have to go from one area of the house to another to complete a simple task, you are wasting a lot of your time and energy moving around your home to do your work.

In the big business world, experts are hired sometimes to observe how people do various jobs and to study the way their work flows--how much time, energy, and body motion goes into getting each part of the work done. The experts can suggest ways to improve or simplify the work procedures as a result.

By thinking conscientiously about your own work flow processes, you can become your own expert and experiment to find ways to do various parts of your work quicker, smoother, more routinely, or with less drain on your time and energy. BUT, also keep in mind what parts of your work that you especially enjoy even if these tasks are more time or energy consuming than is necessary. For example, you may find that you enjoy taking your work outside to do when the weather is nice even though it may be more efficiently done inside the house. The warm sunshine and the pleasant ambience of your garden may be a relaxing environment for doing your work and can increase the psychological rewards you gain from doing it. Some home entrepreneurs find that pleasant background music, attractive, colorful decorations and memorabilia, or the presence of a companion pet helps to improve their enjoyment of the work area. The more enjoyable your work area, the more satisfaction and rewards you can derive from doing your work, and the better you will feel about yourself. This is the substance of success.

Some other ideas and examples for organizing your work area are presented on the following page.

Figure 5.2 SOME SUGGESTIONS FOR ORGANIZING YOUR HOME

Ideas	Examples
• Arrange tools, equipment and work materials in ways to make them easily accessible.	• Instead of jumbling small sewing tools together in a drawer, make or buy a drawer divider to separate different kinds of tools and make them easier to find and to put your hands on the tool you needs. • An inexpensive peg board can be made to store and arrange thread by colors to find what you need at a glance. • A shelf of bricks and boards can be cheaply installed to hold your fabric supplies. • A cardboard box can be used to file patterns in some order with dividers for each type of garment, or to hold your files of business records.
• Protect your work and work area from children, pets, or other family members getting into things that can ruin or mess up your business efforts.	• Lock up any dangerous tools or substances in a cabinet or drawer. • Discourage family members from using your business tools/equipment unless they are responsible enough to replace the items borrowed in good shape. • Try to keep your work area separated away from the living areas used frequently by your family.
• Set aside some time periodically to review or work on your business records.	• For most small businesses, once a week is adequate for accounting. This is the time to examine your inventory of supplies and reorder those that are low; and update your records on income and expenses, new clients, etc. A very active business may require accounting daily, or every other day.

Ideas	Examples
	• Social security payments on your earnings are due at the end of each quarter of the year (e.g. March, June, September, and December). Time to prepare the forms for this will need to be included in your schedule.
	• Maintain a business calendar to list appointments, and important notes for each day. Use the calendar to think through your activities for the next week ahead of time and plan for any unusual events. The calendar will help you to determine how much time you will have to spend each day to accomplish your work. By jotting notes on your calendar of each day's activities, you will have a record of the year to refer to in evaluating your business.
• One of the advantages of a home-based business is that the work of the home can be "dovetailed" or fitted into the work of the business. This advantage is more possible for some businesses and less with others.	• Complex household may need to deliberately plan and assign household responsibilities to all members to enable each person, including the home-based entrepreneur time for pursuit of their own activities.
• It may be less possible for complex households composed of many persons of diverse ages and needs.	• A highly successful and active home-based business may require the purchase of services to accomplish household tasks either on a permanent or occasional basis, or a part-time or full-time basis. Such services could be considered a legitimate business expense in some cases but should be discussed with an expert on tax laws before being claimed on one's tax forms.

Ideas	Examples
	• A portion of one's expenses for child care have been permitted as a tax credit in recent years, when the child care has enabled gainful employment.
• One of the disadvantages of a home-based business is that the work of the business and the work of the home may blend together into one endless, exhausting chain of tasks; thus overburdening the home entrepreneur.	• Set reasonable goals for your work, both for the household and for the business. If some important tasks are not getting done under your system consider (1) hiring someone to do them, (2) reallocating tasks among household members, or (3) reorganizing your work schedule to accomplish these tasks. • Some home-based business people maintain a schedule of business hours each day, or plan to spend a set proportion of time on business activities each day. This time is rarely interrupted by household responsibilities.

SECTION VI

PURCHASING NECESSARY SUPPLIES

OBJECTIVES

1. Compare advantages and disadvantages of the various types of suppliers--manufacturers, wholesalers, and retailers.
2. Design a purchasing system based upon the evaluation in objective 1.
3. Recognize the key points when choosing supplies.
4. Identify four decision factors for buying goods.

SECTION VI

SETTING UP A SYSTEM

As the owner of a home-based business you will need to understand the purchasing requirements of your particular business. You will need to develop an effective purchasing system that meets the demands of operating your business, whether it sells products or services. Service businesses, such as a dressmaking service, sell services, not products, so only a limited inventory is needed to run the business.

Products being stored waiting to be sold or utilized in production are called inventory. The inventory represents money that is "tied up" or invested in the business. This is money that is not free to be used for other business needs. The money "tied up" in inventory will not be regained until a sale is made. This is why the home business owner must understand the needs of their particular business. After careful thought and thorough investigation an inventory system should be tailored to effectively supply the requirements of the business operation.

An important rule to remember when making purchases is to have access to multiple sources. If you can, establish at least two or more supply sources for every item of supply or service. Consider, on the one hand, that with multiple supply sources chances are increased that you will be able to get the best price and on-time delivery. On the other hand, suppliers seem to favor loyal customers with preferential treatment. If a supplier knows you personally they can be a source of helpful information. For example, they may be able to tip you off with useful news, or special bargain offers, or tell you about significant developments in your business area.

The Chamber of Commerce in your region may provide access to information regarding manufacturers, wholesalers, and suppliers in your area. Set up your purchasing system with either manufacturers or wholesalers who will have goods that will satisfy your customer's standards.

No doubt you will be using purchase orders to buy goods from suppliers. You will want to develop an inventory system to keep track of the goods in your business; perhaps, by way of an inventory card method.

Selecting Suppliers

Businesses selling goods to other businesses are called suppliers. A home-based business owner may be able to purchase directly from a manufacturer who makes the kind of product needed for use in his or her business enterprise. Products needed for use in a business may be purchased from a wholesaler or middleman who buys from the manufacturer and sells to retailers. Wholesalers customarily sell goods cheaper than retailers, but usually only in large quantities.

Many suppliers offer credit terms which present the business person with the option of getting a discount by paying cash at the time of purchase. No discount may be given in exchange for paying the bill within a specified time period. For the privilege of paying over an extended period of time, the home entrepreneur can expect to pay an interest charge.

Buying Policy--Decision Factors

When planning to purchase supplies and products for your home-based business, you must base your buying decision on: What, Where, How, and When.

What To Buy?

Modern marketing programs are built around the "marketing concept," which directs managers or owners to focus their efforts on identifying and satisfying their customer's needs--at a profit. To use the marketing concept, a home-based business should:

- determine the needs of their customers
- analyze their competitive advantages
- select specific markets to serve
- determine how to satisfy the needs

To decide what goods you need in your home-based business, you will need to study the customers you want to reach; then you decide what they want and need.

Service oriented businesses need to decide which suppliers have the products and services that will help their small business perform in the best possible way. Products and materials should be ordered that are necessary for what the customer needs.

How Much To Buy?

In order to save money, the quantities purchased should be as small as possible to comfortably satisfy the needs of your business, yet not so small that you are left unsupplied at a critical moment. Too large a purchase ties up money that might be more productively used elsewhere to enable your business to function more effectively. You don't want money tied up for too long a time in goods waiting to be used or sold. You have to learn how to do a "balancing act." It takes a little experience to get to know just how much is the right amount.

When To Buy?

As a home-based business owner, you will probably have to buy supplies several weeks or months before you need them, especially if you have to allow time for a long distance delivery. Some goods needed in your business everyday should be ordered regularly. Other goods related to the season should be ordered only at certain times of the year. Having a good system for timing orders is very important for your business.

Where To Buy?

As a home-based business person, you have to decide which supplier is best for you. Quality, price, and service are three things to consider carefully when choosing a supplier.

- Quality
  - --should satisfy the customer's taste
  - --should satisfy the customer's budget
  - --should satisfy the customer's standard of acceptable quality
- Price
  - --sales effort is needed to sell quality
  - --customers usually favor quality over low price if the advantages of quality are brought to their attention
  - --find the supplier offering the best quality at the lower price
  - --supplier's cost must be reflected in your price to the customer
  - --consider all the costs of the business operation when setting prices
  - --set prices so you make a profit

- Service
  - --accurately fills orders
  - --reliably meets delivery dates
  - --courteously deals with customer
  - --resolves complaints or problems fairly and promptly

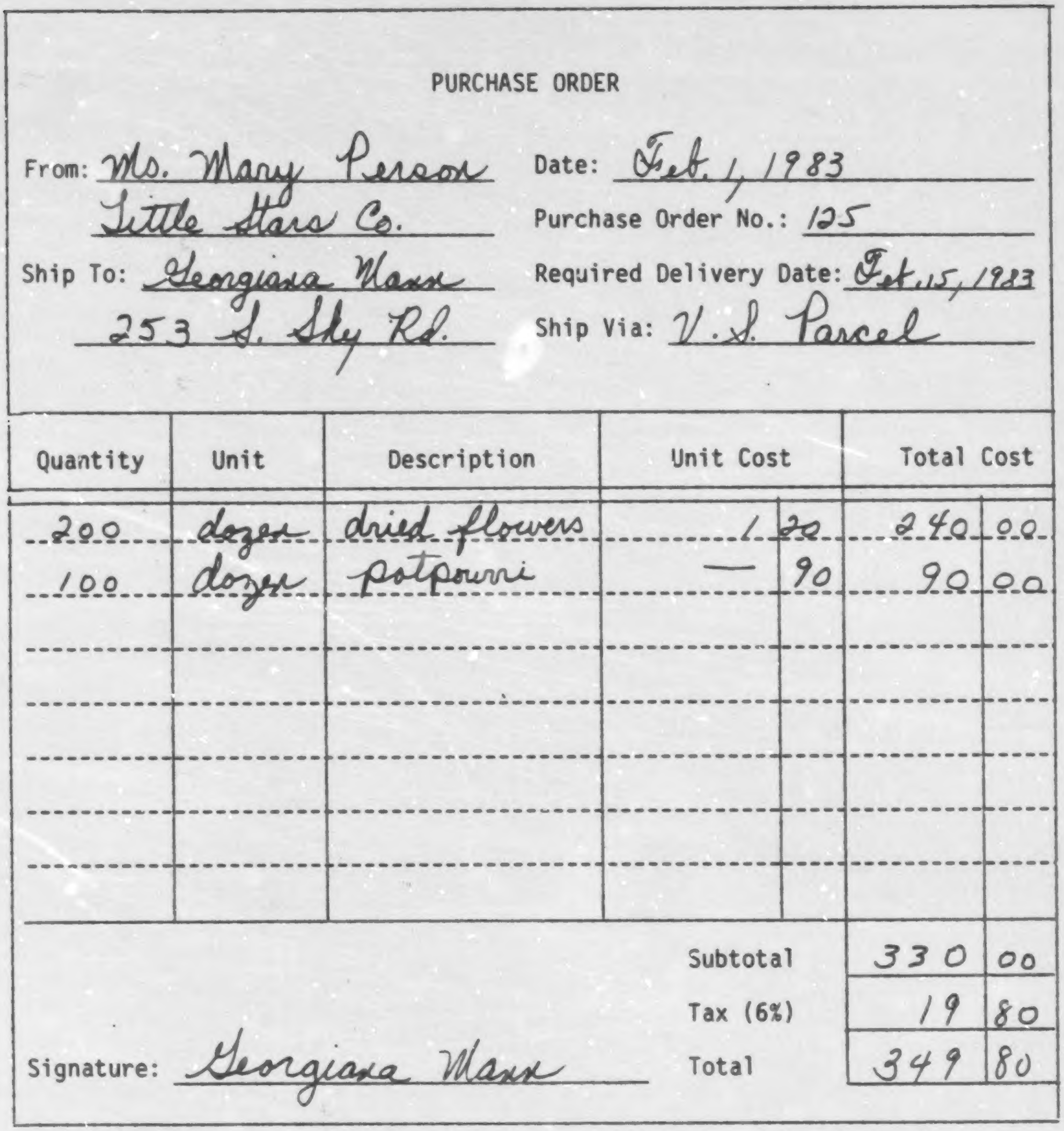
service
with a smile

The Purchase Order

The purchase order is used to order goods from suppliers. The order form must supply some necessary information:

- name and address of the supplier
- name and address of the purchaser's business
- purchase order number and date
- required delivery date
- delivery method
- quality, quantity and description of units or items
- cost of each unit
- subtotal cost of each category of units
- total cost of entire order

Figure 6.1 SAMPLE OF PURCHASE ORDER FORM



PURCHASE ORDER

From: Ms. Mary Person
Little Stars Co.

Date: Feb. 1, 1983

Purchase Order No.: 125

Ship To: Georgiana Maxx
253 S. Sky Rd.

Required Delivery Date: Feb. 15, 1983

Ship Via: U.S. Parcel

Quantity	Unit	Description	Unit Cost		Total Cost	
200	dozen	dried flowers	1	20	240	00
100	dozen	potpourri	—	90	90	00

Subtotal	330	00
Tax (6%)	19	80
Total	349	80

Signature: Georgiana Maxx

The Inventory System

The home entrepreneur may wish to study several inventory techniques, and then decide upon utilizing a system that will best satisfy their style of business operation. Again, some on-the-job experiences, the trial and error method will lead the way to the most efficient system.

Here are some points to consider incorporating into your inventory system.

Keep a running inventory, using a card file for current data.

Keep records to aid in the prompt and systematic filling of customer orders.

Account for all your business related items, to help you determine prices and taxes.

When putting inventory in storage, keep accurate records of what is stored, and where it is stored, and why it is stored.

Maintain your inventory in good condition, damaged inventory results in economic loss.

Carefully check your inventory once or twice every year

- determine the amount of inventory
- determine the quality of inventory items
- determine the kinds of items
- make decisions about product changes
- learn what is being stored
  - to make decisions about how to deal with stored items
  - stored goods represent tied up money

You will want to keep an inventory card for each product item used in your business or sold by your business. As you receive a shipment from a supplier make up an inventory card. The card should record:

- what the item is
- who is the supplier
- when you received the shipment
- quantity of items

Figure 6.2 on the following page is an example of an inventory card format that could be useful to a small business.

Daily, as sales are made, record how many items have been sold; figure how many are still in stock.

Original Quantity - Sales = Amount Remaining

Figure 6.2 SAMPLE OF INVENTORY CARD

Inventory Card

Item: Skeins of Wool – Blue Color

Supplier: John Johnson

Reorder Point: 60 skeins Reorder Amount: 200 skeins

Date Order Placed: September 10

Amount Received		Amount Sold		Amount Remaining	
Date	Quantity	Date	Quantity	Date	Quantity
Sept. 15	200	Sept 16	10	Sept 16	190
		Sept 17	15	Sept 17	175
		Sept 18	9	Sept 18	166
		Sept 19	7	Sept 19	159
		Sept 20	12	Sept 20	147

You will want to keep your records current. It will be helpful to have a predetermined reorder point. When supplies reach that predetermined quantity you will place a new order to replenish the dwindling supply.

If you look at Figure 6.2 you see that the reorder point is 60 skeins of wool. As the daily tally is made, recording the amount sold, and determining the amount remaining in supply, the entrepreneur is aware of the status of supplies. When determining the reorder number, consider how long it will take the supplier to process the order and to make a delivery. Make the reorder point a realistic amount so that your business operation will not be hindered by having supplies depleted before the new shipment arrives.

Inventory can also be tracked by the sales check or sales record method. Copies of the sales checks should record the description and quantity of items sold to be useful in figuring the inventory supply.

Suggested Activities

1. Design an inventory card for use in your particular business enterprise. Can you improve the design of the inventory card shown as an example in Figure 6.2, page 63? Remember to incorporate the essential information.

   a. supplier's name, address and telephone number
   b. product description
   c. running record of supply quantity
   d. date order was placed
   e. date order was received

2. Inquire among small business owners with whom you are acquainted to learn how they track their inventory supply.

3. Design your own inventory system.

   a. make an outline of the items that will be used in making your business function
   b. itemize how many different products will need records kept of the amount on hand
   c. estimate frequency of use:
      1) on a regular basis, i.e., daily, weekly, biweekly
      2) on a sporadic basis
   d. plan how to set the reorder point for each product line that will be used in your business operation

4. Research suppliers of one particular product.

   a. find out about prices; make comparisons
   b. examine the quality carefully, determine if the quality is appropriate for your customers
   c. find out about delivery method
   d. determine the amount of time between placing the order and receipt of the order
   e. learn the terms of payment; determine what the payment options are

5. Consult the Small Business Administration/Chamber of Commerce Resource Center in your region for available information on inventory systems.

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SECTION VII

SETTING PRICES FOR YOUR HOME-BASED BUSINESS

OBJECTIVES

1. Learn the basic components for setting prices.
2. Learn the special components for setting prices in a service-oriented business.
3. Learn the special components for setting prices in a product based business.
4. Learn how to figure the turnover rate.

SECTION VII

SETTING PRICES FOR YOUR HOME-BASED BUSINESS

Determining prices for the products or services sold by your business is one of the most challenging tasks facing the entrepreneur, especially the novice. How much is paid by the customer for a product or service is the selling price. Some essential components of price setting are:

- What are people willing to pay?
- What is the break even point; when are expenses covered?
- How much profit do you want to make?
- What is your competition charging?

Setting prices for a service-oriented business is a little different than setting prices for products sold by a business. Both have some common cost considerations.

General Price Setting Components

Common essential considerations when setting prices are:

- operating expenses
- break even point
- profit

All the costs of running a business must be included in the price charged. Another name of these costs is operating expenses. These costs include:

- salaries
- fees--to lawyers, accountants
- rent (includes space in your house)
- utilities, heat

- repairs
- depreciation on any equipment
- advertising/promotional expenses
- general supplies
- insurance

Service-Oriented Business

A person operating a service-oriented business needs to figure out on paper the operating expenses incurred simply to keep the business going. Keep careful records each month of all the money spent for the business and the income received.

The price should include:

- operating expenses
- time investment/labor costs
- profit

Remember to include the costs of heat, electricity, and rent even when working from your house. Bookkeeping and answering services, as well as office supplies, gasoline, postage, and telephone expenses need to be counted as business expense and figured into the price charged. Service businesses either charge a flat fee or by the hour. In either case you must know what your hourly expenses are.

If you work full-time, 8 hours daily, then you are working 168 hours a month. The standard number of working days in a month is 21.

8 hours x 21 standard working days per month = 168 hours per month

Adjust these figures to suit your own personal situation if you work more time or part time.

To compute your hourly expenses take your total monthly expenses and divide by 168 to arrive at your hourly expense figure.

For example:

Total monthly expenses ÷ 168 hours = hourly expense
$596 ÷ 168 = $3.55

Labor is a major portion of the service-oriented business's expense. Figure out what your time per hour is worth for each task and include it in the price.

You may decide to charge the hourly minimum wage, which is currently $3.35 per hour. If a task is complicated and requires a special expertise not readily available you may want to charge a higher amount for your labor. Keep in mind this will elevate the price and some customers will either be unwilling or unable to buy your service. Some entrepreneurs are willing to charge less than minimum wage for their labor until they have established their business reputation.

Profit should also be included in the price charged. A business cannot continue to operate if it does not make a profit. You will want to find out the profit percentage made by other similar services and include a comparable amount in your price.

To arrive at the figure representing the price per hour to be charged:

- First, decide on the amount to charge per hour for your labor;
- Second, after figuring the amount of hourly expense, add that amount to to the hourly labor charge;
- Third, decide what you think is a fair and competitive amount of profit, add this to your other charges; and
- Finally, arrive at the price to be charged per hour for the service you are selling.

Example:

$3.55	+	$3.55	+	$1.40	→	$8.50 per hour
↑ labor expense per hour		↑ hourly expense		↑ profit per hour		↑ price charged

Product-Oriented Business

Businesses selling products also have to keep their competition in mind and determine the "going-rate" for similar products sold in their area. The profit percentage and business operating expenses are standard components figured into the price charged for products.

The selling price for products being sold should include:

- cost of goods sold
- operating expenses
- profit

In retail businesses the difference between wholesale cost of the merchandise and the retail price is called *mark-up*. Mark-up must cover the costs of operating the business and allow the business to make some profit.

The most common strategy used to set prices is called *gross profit pricing*. This is the amount added to the wholesale cost, and in this case can be thought of as mark-up. *Gross profits* must cover operating expenses. *Net profit* will be what is left over after paying out operating expenses. Net profit is the reward the owner expects for all the hard work and financial investment made in the business. Part of the profit money will be used to pay income taxes and some will be reinvested in the business.

Hard goods are usually marked up 100%. Living products such as plants may be marked up 100% to 300%.

To calculate the gross profit percentage or mark-up use this formula:

$$\frac{\text{Selling Price - Wholesale Cost}}{\text{Selling Price}} = \text{Gross Profit Percentage}$$

$$\frac{\$30 - \$10}{\$30} = 66\%$$

Other Relevant Elements in Price Setting

When setting prices the entrepreneur will be aided by guidelines and formulas; however, other factors also need consideration. The price charged by a competitor is relevant to the price you can charge. You want customers to buy goods or services through your business, not through your competitors' businesses.

The break-even point is another important figure to calculate. What is the minimum amount you can charge simply to regain the costs you have had to pay out to run the business? You will be able to determine this from your records of business expenses and product costs.

When products are not selling, the entrepreneur will need to mark down prices to help speed sales. Sometimes, an item will be marked below cost simply to move it out of inventory. Be sure the customer knows the original price so they can see the bargain they are getting. Mark downs make customers happy.

Stock Turnover

Stock turnover is the number of times inventory is sold and must be replaced in a year. It is an indicator of your business's health.

To figure your turnover rate, take the cost of the goods sold in your business in one year, divide by the average cost of inventory carried to learn your turnover rate.

The average cost of inventory figure can be calculated by first adding up the wholesale costs of all inventory on hand January 1. Next count and add the wholesale costs of the end-of-month inventories for the next 12 months. Add these two figures together and divide by 13.

For Example:

Wholesale Cost of All Inventory on hand:

January	$ 900.00

Wholesale Cost of Inventory at End of Each Month for Next 12 Months:

January 31	$1000
February 28	900
March 31	800
April 30	950
May 31	1050
June 30	1100
July 31	1150
August 31	1300
September 30	1050
October 31	1000
November 30	900
December 31	800
total--	$12000.00
grand total--	$12900.00

add

Divide the total wholesale inventory costs by 13 to get the average cost of inventory carried:

$12900 ÷ 13 = $992

Now you can figure what the turnover rate will be.

> Take the total costs of the goods sold by your business in one year and divide by the average cost of inventory carried.

$$\frac{\text{Cost of Goods Sold in One Year}}{\text{Average Cost of Inventory Carried}} = \text{Turnover rate}$$

$$\frac{\$10000}{\$992} = 11$$

A low turnover rate may indicate not only slow sales but a poor choice of merchandise. Too high a turnover rate may indicate a need to buy in larger quantities. A business selling perishable items will want a turnover rate between 9 and 12 times a year. In this way spoilage loss will be minimized, and more cash is available to buy merchandise to improve inventory.

Summary

Learning how to set prices takes some business experience. The information in this section is presented as a helpful guide; however, some degree of flexibility is needed. You need to set prices high enough to pay operating expenses and give some profit, but low enough that people will buy.

You will need to make some adjustments to your business if your operating expenses are too high.

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SECTION VIII

FINANCIAL RECORD KEEPING

OBJECTIVES

1. Record the money coming into your business.
2. Record the money flowing out of your business.
3. Know your current business status.
4. Maintain records to supply sufficient information to make future business plans.
5. Maintain records to supply information for government reports including taxes.

SECTION VIII

FINANCIAL RECORD KEEPING

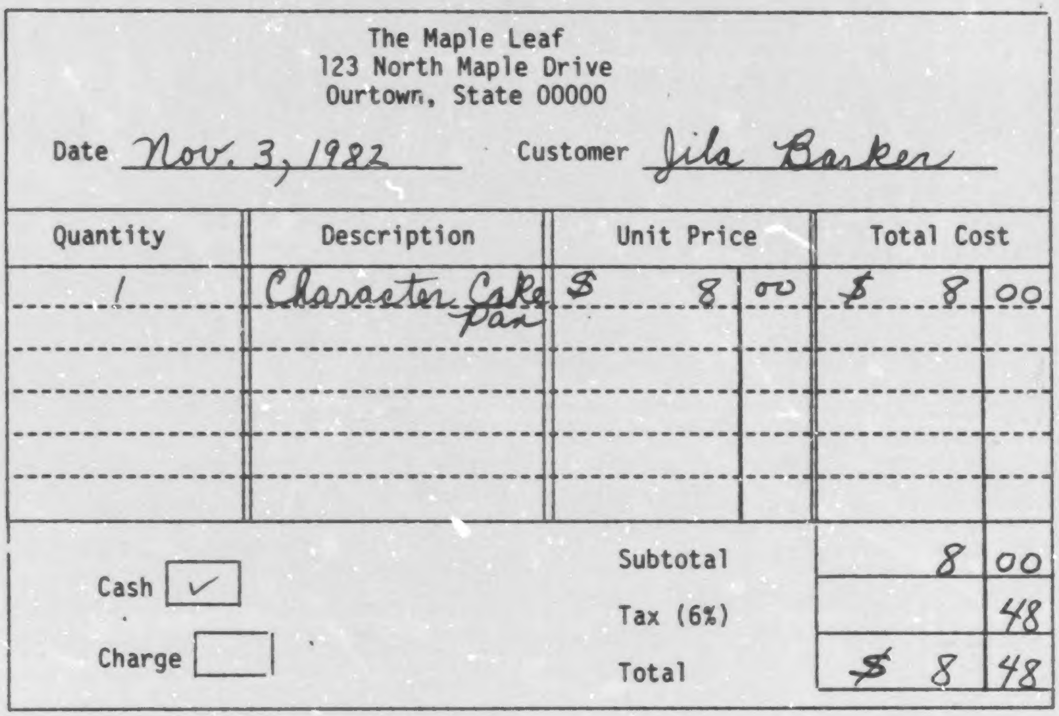
Financial record keeping is keeping records of the money coming into and going out of your business. It is as important to your home based business as selling your products or services. It is difficult for one to remember all the numbers and bits of information that pass across one's desk in a day. Keeping complete financial records is the most important effort to help your business meet with success. In getting started, you must decide who will keep the records for your business -- yourself, an employee, or an outside bookeeping or accounting service. If someone else keeps the records, you should check with them on a regular basis. Three most commonly used forms for keeping track of financial records are:

- the sales slip
- the customer account form
- the customer billing form.

The Sales Slip

Many small businesspersons use sales slips so that they and their customers can have a record of each item sold. The sales slips help businesspersons know how much money they took in each day and what kinds of goods they sold. Sometimes they use the sales slips to get information about how much each credit customer owes the business. The sales slip also provides the customer with proof of purchase so that they may bring the item back for exchange or refund if that is necessary.

Figure 8.1 is an example of a sales slip that could be used.



The Maple Leaf
123 North Maple Drive
Ourtown, State 00000

Date Nov. 3, 1982 Customer Jila Barker

Quantity	Description	Unit Price		Total Cost	
1	Character Cake Pan	$ 8	00	$ 8	00

Cash ☑

Charge ☐

Subtotal	8	00
Tax (6%)		48
Total	$ 8	48

Figure 8.1 SALES SLIP

The Customer Account Form

The customer account form shows how much credit has been extended to the customer; it tells how much money the customer owes the business. Each customer needs one copy, and the business person using this form for record-keeping purposes needs a copy, also.

Figure 8.2 on the following page is an example of a customer account form that could be used.

To figure out the new balance due, you have to add the old balance due to the amount charged then subtract the payment received. The formula for the computation is:

Old Balance Due + Amount Charged - Payment Received = New Balance Due

Figure 8.2 CUSTOMER ACCOUNT FORM

Customer Account Form

Customer Daniella Johnson

Address 333 W. Sunshine Street

Date	Description of Sale	Amount Charged		Payment Received		Balance Due	
10/2	Needlework tablecloth	$ 25	00	$ 17	00	$ 8	00
10/29	Handbag Kit	22	95	10	00	20	95

The Customer Billing Form

You have to bill your credit customers to request payment for the goods they have charged that month. The customer billing form looks very similar to the customer account form which the entrepreneur keeps in the record file.

The customer billing form should show:

- the firm's or entrepreneur's name and address
- the customer's name and address
- date that payment is due
- the amount due on the account.

Figure 8.3 on the following page is an example of a customer billing form.

Figure 8.3 CUSTOMER BILLING FORM

Little Stars Company
235 South Sky Road
Ourtown, State 00101

Customer Susan F. Weis
Address Education Building
State University

Payment Due Date Nov. 20, 1982

Billing Date	Description of Sale	Amount Charged		Payment Received		Balance Due	
Nov. 5	Shirtwaist dress	$ 60	00	$ 25	00	$ 35	00

If you want to bill your customer for a certain service, Figure 8.4 is another form you can consider as a model to be used.

Little Stars Company
235 South Sky Road
Ourtown, State 00101

May 10, 1982

To: Dr. Susan F. Weis
Education Building
State University

for professional dress-making service
as requested by Dr. Weis

3 piece suit
(description of goods
or services here) $ 180.00

Figure 8.4 BILLING FORM

Figure 8.6 is an example of a checking account record system.

RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT					
Number	Date	Description of Transaction	Payment(-)	Deposit(+)	Balance

Figure 8.6 CHECKING ACCOUNT RECORD SYSTEM

The Daily Cash Sheet

To keep records for all the money coming into and going out of the business in a day, you need to fill out a daily cash sheet as presented in the example shown by Figure 8.7.

Daily Cash Sheet

Date Jan. 16 1983

Cash Revenues		Cash Payments	
		Salary	$ 35.00
Cash Sales	$ 135.59	Utilities	$ 1.80
		Equipment	$ 0.00
Credit Sales	$ 93.27	Inventory	$ 400.00
		Suppliers	$ 0.00
		Advertising	$ 0.00
		Others	$ 13.00
TOTAL CASH REVENUES	$ 228.86	TOTAL CASH PAYMENT	$ 449.80

Figure 8.7 DAILY CASH SHEET

You will get the information to fill out the daily cash sheet from some of your records--sales slips, customer account forms, and checking account records. On the left side of the form, you list the money coming into the business that day. The amount of cash is the money coming in from customers who pay for products or services at the same time they buy. The credit sale is the money coming in from a customer who charged the product or service and will pay for them at a later date.

On the right side of the form, list all the money going out of the business. This might include salaries, utilities, equipment, inventory, advertising, and other expenses.

By filling in a cash sheet every day, you can prepare business reports for yourself, the bank, and the government. You can look at your financial reports when you want to make an important business decision.

Other Ways of Keeping Track of Expenses

When you start your home-based business, you will need to keep a file of your unpaid business bills. File bills in order by the date that the bill needs to be paid; then when paying your bills write your checks in that order.

You may also want to keep a separate record or ledger for each type of payment being made. On this form you will record every time money is paid out. When you prepare yearly financial reports, you can easily add up all the figures on the page and determine the total amount spent on a certain item for the year.

A simple record keeping system is adequate for the beginning home entrepreneur, it is called a single-entry system. An office supply store should have a single entry system available.

Cash Flow

Keeping your home-based business successful is a day-in, day-out job. Besides all the other things you should do to keep the business running smoothly, you have to keep your business successful by making sure your have enough cash, keeping your profits up and your costs down, and improving your products and services.

Many small businesses have "cash flow" problems at one time or another. A cash flow problem occurs when the cash is flowing out of the business faster then it is flowing in. In other words, the business owner has to pay bills promptly every month, but the customers are slow to pay the owner the money they owe.

The reason you will want to keep track of the cash on hand in your business is to be assured that you will have enough money to meet your business expenses. It is recommended that you estimate your cash flow at least a few months ahead. For larger business enterprises some experts recommend estimating the future business plans and expenses over a five year period. This may not be practical or feasible for the small business person or home entrepreneur. However, it might be worthwhile to make future predictions for your business, looking ahead at least one year.

If you project that you will have extra cash you may wish to invest in improving your business, or to put the extra cash in short-term investments to earn some interest.

Conversely, if your business is having cash flow problems, and your future projections indicate a cash shortage, you may have to borrow money to keep going. Paying interest on borrowed money is a significant business expense for the home entrepreneur.

The Cash Flow Statement

A good way to keep track of your cash flow is to use a cash flow statement. Follow the record of your business on a daily cash sheet. Figure out a cash flow statement for the past few months of your business operation. Estimate or project a cash flow statement for the coming months.

A projected cash flow statement appears in Figure 8.8. It shows the cash you expect to take in and pay out in the next three months.

To figure the amount of cash on hand at the end of the month substract the total expenses for the month from the total revenues for the month.

Cash on hand at the end of the month = total cash revenues - total expenses

Ways To Improve Cash Flow

To help solve cash flow problems you will find it necessary to look for ways to economize and lower your business operating expenses. You may consider raising prices as another way to increase revenues.

Date: Sept. 29, 1982

Cash Flow Statement
(projected for next three months)

Cash Revenues	October		November		December	
Cash on hand from previous month	110	00	588	30	690	10
Revenues from customers	5110	00	5000	00	7500	00
Revenues from interest	18	50	17	00	30	00
Total Revenues	5238	50	5605	30	8220	10
Cash Payment						
Salaries to employees						
Supplies	2540	20	2540	20	2540	20
Advertising	2000	00	2200	00	3200	00
Building Expenses	60	00	70	00	120	00
Utilities	0	00	0	00	0	00
Other Expenses	25	06	50	00	85	00
	25	00	55	00	100	00
Total Expenses	4650	20	4915	20	6045	20
CASH ON HAND AT THE END OF THE MONTH	588	30	690	10	2174	90

Figure 8.8 CASH FLOW STATEMENT

You will want to consider some alternative financing sources that are available to small businesses. If suppliers offer an extended time period for payment of bills, they are offering a form of credit that is really short term financing. When suppliers extend this kind of credit it is called "trade credit." Trade credit is one of the largest sources of small business financing available. Trade credit will only be continued as long as you maintain good relations with your supplier and pay your bills on time.

By negotiating with your supplier you may be able to arrange terms to repay in thirty, forty-five, sixty or ninety days. If your supplier agrees not to change interest if payment is made during the agreed time period, you have been extended short term financing that will be beneficial to your business during a cash flow crisis.

You may need to borrow money from a personal friend or relative. You may need to borrow from a lending institution such as a bank or commercial finance company.

Some ways to solve a temporary cash flow problem to help avoid making a loan:

--get customers to pay their bills more quickly
--limit credit extended to customers
--cut down on goods ordered for inventory or resale
--negotiate with suppliers for extended credit terms
--search for ways to cut operating expenses
--reduce your own salary
--use profits to reinvest in the business

Keeping Effective Records

Keeping good records helps you successfully manage your business. Even though it may seem like a lot of work, as an owner of a small business you do not have much choice, you must keep records of your business expenses and income on a daily, weekly, monthly, quarterly and yearly basis.

Information provided by good records:

- An accurate, current assessment of
  --sales
  --operating costs
  --fixed cost
  --variable costs
  --inventory levels
  --credit totals
- Data to assess growth
  --comparing performance with previous year(s)
  --comparing performance with goals set
- Basis for comparing the performance of your business with the performance of similar businesses
- Data for financial statements
  --financial analysis is based on accurate records
  --investors and creditors will require accurate financial information
- Information to prepare and substantiate
  --tax returns
  --government reports
- Control Method for
  --stock levels
  --inventory

Who Should Keep Your Business Records?

You may feel inexperienced and unqualified to maintain a bookkeeping system. In the beginning your business may not need a complex record keeping system. You may choose to keep your own records to learn about managing your business and to avoid extra expenditures.

Eventually you may want to make other arrangements for record keeping. An employee may be assigned the record keeping task. An outside accounting firm could be hired to help design or redesign record keeping systems. The accounting firm can help prepare financial reports and tax returns, as well as regular financial analyses of your business.

If you do choose to relegate the record keeping tasks to someone else, you will need to consult these records frequently and regularly. This is necessary to make decisions and for planning purposes.

Where Is Assistance Available?

Where can you go for help to set up your record keeping system?

Look in an office equipment supply company. They may have some convenient, simplified record keeping books available.

Suppliers or trade associations in your general business area may be able to provide guidelines or examples for maintaining accounting records.

A college in your area offering business courses may have an instructor interested in using a small business as a prototype for a class or student special study project. Your business could be used in the project to allow the student to gain experience in setting up a record keeping system. In this way you could benefit by having a record keeping system established free of charge.

Remember that government agencies could also be a source of help in establishing a record keeping system. The Small Business Administration and the Office of Minority Enterprise are two such government agencies. Women entrepreneurs have special assistance and advocacy available through the SBA. Your state's Department of Commerce or Department of Labor and Industry may also be a source of help and information regarding management procedures.

The SBA co-sponsors formal training with educational institutions, professional associations or business organizations for little or no charge. Outreach programs provide workshops and seminars. Management assistance is available through in depth counseling on a personal basis. Two organizations associated with the SBA, the Service Corps of Retired Executives (SCORE), and the Active Corps of Executives (ACE), provide volunteer counselors for small business people.

State government agencies are offering more help and information to small business firms.

Look in the local telephone directory under "U.S. Government" for the SBA office nearest you. Look in the phone directory under "State Government Offices" for listings such as "community development" or "economic development."

Contact your local college, university or community college to see what record keeping courses might be available through their adult education or continuing education programs. Find out what programs they offer that are co-sponsored with the SBA that would be free or reasonably priced.

SUGGESTED ACTIVITIES

1. Make a plan to establish a record keeping system for your business.

2. Think of at least four or five reasons why your business will benefit from a good record keeping system.

3. List the kinds of information you want your records to tell you.

4. Investigate the sources of help regarding record keeping that are available in your area.
   a. Think of those that would offer the information without a charge.
   b. Think of those that would charge a fee.
   c. Give yourself advantages and disadvantages for using each source.

Record Keeping Information Sources					
Available No Fee Charged	Advantage	Disadvantage	Fee Charged For Service	Advantage	Disadvantage

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Section IX

ADVERTISING AND SELLING

OBJECTIVES

1. Consider the gamut of advertising mediums, choosing the one(s) which would serve the needs of your business.
2. Within the geographic area your business will serve, define who are your potential customers.
3. Consider an advertising plan: examine the cost, timing and design of an advertisement.
4. Understand what motivates customer's purchasing decisions.
5. Gain an understanding of some basic customer needs and how to effectively help customers make sales decisions.

ADVERTISING AND SELLING

Having completed your business plans and having perhaps even set your business plans into motion, you will now need to attract customers to patronize your enterprise. You may have an excellent service to offer, or a very useful, desirable product at an attractive price. People will need to know about the products and services your business is offering for sale. Through advertising you offer the necessary information enabling people to learn about your business.

The art of selling is getting consumers to actually make the purchase from you.

ADVERTISING PLANNING

- Establish who is your target audience.

  When making your business plan in Section II you thought about the kind of customer you wanted to attract to patronize your business.

  The geographic area from which you will be attracting customers also needs definition for advertising purposes.

- Consider the variety of advertising mediums; decide which advertising medium(s) may be the best for you to use in reaching your target audience.

  --Local Newspaper advertisements are fairly cost effective. A relatively large number of people in your local business area can be informed about your business at a reasonable cost. Many home entrepreneurs find classified ads in local daily newspapers, Sunday editions, and shopper newspapers an effective medium for telling customers about their business.

  --Direct mail advertising can be a fairly costly method of advertising. For some businesses it can be an effective communication method. Businesses dependent upon a catalog sales approach rely upon the direct mail medium.

  To communicate specific information and personal messages to special customers, direct mail is effective. It is also a good way to build customer loyalty and good will.

  The direct mail medium may be the best way to communicate your message to large numbers of people inexpensively.

--Brochures are the most effective way some businesses can advertise themselves, this is especially true for child care services and home health care services.

The brochure should clearly and attractively describe the business, tell about its services or product(s), and tell something about the qualifications and expertise of the owner and anyone working with the owner. A prospective client needs to learn enough about the business to be persuaded to make contact with you to have further questions answered, or better yet to arrange to utilize the services your business is offering.

For example: A child care service would be advertised best through the brochure format. The brochure could tell what hours your service is available, where the service is available, what training, qualifications and experience you have and anyone working with you, if you serve nutritious attractive meals and snacks, if you have nap facilities available, as well as telling something about the play facilities and activities available for the children. This brochure should be distributed to an entire neighborhood within a three mile radius of your home. It should be periodically distributed, several times a year would be best, but no less frequently than once a year.

--Radio and Television advertisements reach thousands of people. Most likely television would be too expensive for most home entrepreneurs to use.

Local radio advertising, however, is comparable in price to newspaper advertising. People listen to radio morning, noon and night, and while traveling in their automobiles. Local stations reach consumers in your geographic area.

You would need to consider the kind of listener the radio station has in its audience to compare with your profile of a potential customer. Your choice of radio station to air your advertised message should have the kind of customer you are trying to reach within its audience.

Keep in mind that radio advertisements must be used often to get results, so radio advertising could prove to be more costly than newspaper advertising in the long run.

--The Yellow Pages of the telephone directory might be another way to list your business.

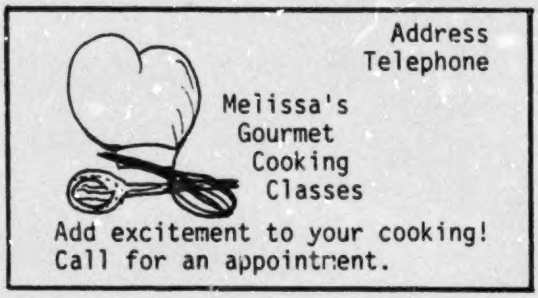
Sometimes customers do use the yellow pages to locate needed services. You would need to analyze this method regarding its effectiveness in reaching the particular customer seeking the kinds of goods or services being offered by your business. Not all businesses find the yellow pages a good medium for advertising their particular enterprise.

--Business Cards are another effective way for the home entrepreneur to inform the public about his/her business. They should be imaginative and attractive, concisely communicating necessary information about the business to a potential customer.

Business cards can be distributed through satisfied customers, either at the satisfactory completion of a job or through the billing procedure.

They are also easily distributed as opportunities present themselves in your contacts with people you meet and through friends and relatives.

Example of a business card:



Address
Telephone

Melissa's
Gourmet
Cooking
Classes

Add excitement to your cooking!
Call for an appointment.

--Networking may be a method you will wish to consider to advertise your business inexpensively. It will require some ingenuity on your part. Opportunities surround you through the contacts you make with many people during the course of your daily living activities.

How you go about spreading the news, concerning your business, by using networking will require some thoughtful planning. What style will suit your personality and enable you to comfortably meet people to tell them about your business? Perhaps you will offer business cards and brochures to people you meet whenever an opportunity presents itself. You may want to take a more aggressive approach. Seek out the leadership of social club groups or the leaders of community organizations. Request an opportunity for time and space on their meeting program agenda to briefly present information and examples concerning your business. You may be more comfortable using a more subtle approach, such as putting your business card or brochure on community bulletin boards or supermarket bulletin boards. With permission, you might try leaving your card in a busy public place, such as a well patronized restaurant or pharmacy. You might try convincing the person who prints your brochure or business card to display your advertising piece as an example of his or her work.

--Public Relations Technique -- you could ask to display your work at the local public library, or in the banks of your community. You could approach local merchants whose own merchandise would be enhanced by a display of your business product in conjunction with their own business. For example: a jewelry store might consider beautiful needlework an interesting and textural combination for display with their jewelry products. You are not competing with them, and yet you are gaining exposure to the public. It is a way to tell the public about your business.

If there is something especially unique about what you do in your business, or about the way in which you developed your business, you may find the local newspaper would be interested in publishing your story as a human interest article. Try contacting the editor of the family living pages of your local newpaper to interest them in running an article about you and your business.

--Word of Mouth advertising is probably the most potent form of advertising. Pleased customers who tell their friends and relatives about your business are not only complimenting you, they help establish your credibility as a business person. Pleased customers contribute to your business success.

--Promotional Techniques may seem like a gimmick, but they do attract attention. Most people appreciate being given something. People will tend to remember your business if you give them something that has the name, address, and telephone number of your business, along with your business logo or symbol imprinted on it. A clown or some other type of costumed character can give away a balloon, a needle and thread kit, an emery board, or a lollipop imprinted with your business's information.

Promotional techniques can be utilized at craft fairs, community festivals, merchant sidewalk sales or flea markets to attract customer attention to your particular business. These techniques usually will pay off for you over a period of time by increasing the volume of your business.

--Trade or Craft Associations are another resource home entrepreneurs can use to advertise their business. These groups present an opportunity to their members to meet potential customers through the expositions they sponsor. Opportunities to meet additional customers may occur through the networking contacts made through association members. Members may share experiences, advice, ideas and information about their successful business practices and selling techniques. Publications sponsored by an association may offer sound business information and advice.

Home entrepreneurs will need to consider the important aspect of the cost of the advertising medium they choose, and how effective the results in sales are in comparison to the money spent for advertising.

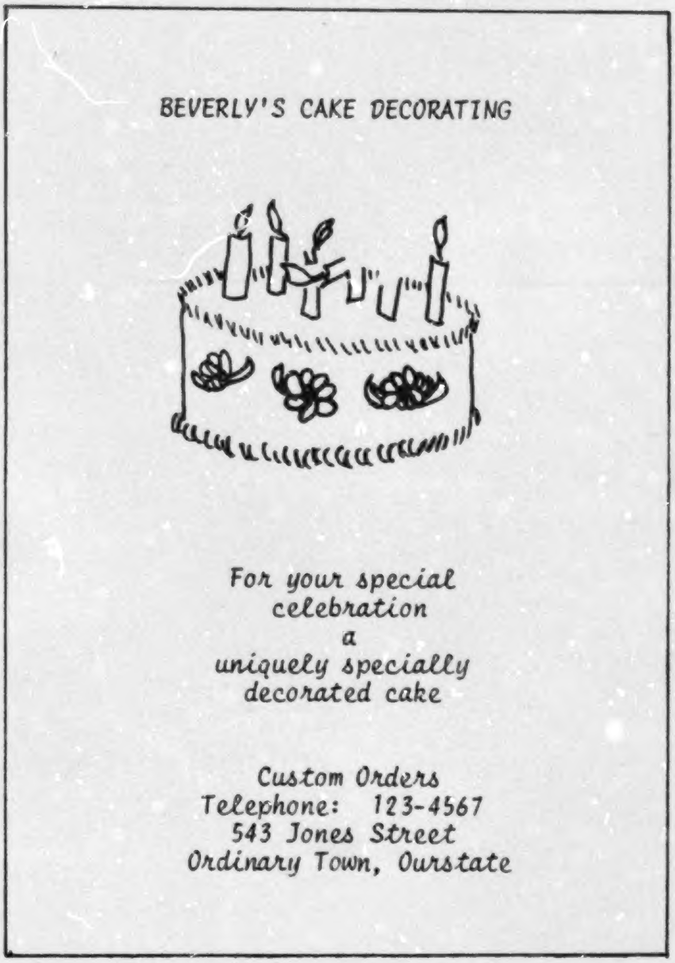
DESIGNING A PRINTED ADVERTISEMENT

- What is needed:
  - --a headline...to attract attention
  - --an illustration...to augment the printed information

--the copy...the written portion of the ad presenting information about the business and its products and/or services creating a desire to buy

--identification...tell the business: name; address; telephone number; business symbol or logo

Example of an advertisement:



BEVERLY'S CAKE DECORATING

For your special
celebration
a
uniquely specially
decorated cake

Custom Orders
Telephone: 123-4567
543 Jones Street
Ordinary Town, Ourstate

BUDGETING FOR ADVERTISING

- New businesses need to tell people about their existence. They need to tell about their services and/or products. In order to educate the public about your new business enterprise you need to tell them what you do, what makes your business unique, who owns it, where it is located, and when it it open.
- Advertising is a way to communicate important messages to consumers. This expense can be regarded as an expense toward establishing your new business.

According to Robert E. Karp in the April, 1974, Journal of Small Business Management:

> The size of your advertising budget should be determined by both your long-range and immediate sales objectives, and by comparison with the amount spent in other businesses. Although the proportion of income spent on advertising varies according to the type [of business] the average is roughly 1.5 percent (p. 5).

This figure would be adjusted according to your plans for your business. Businesses trying to establish themselves or trying to expand will have to match the amount being spent on advertising by their competition. If your business can not afford to do this you will have to reevaluate your plans aimed toward business expansion.

Formulas and procedures exist that have validity for larger enterprises, but as Thomas C. Dandridge points out in the April, 1979, Journal of Small Business Management, "Children are not 'Little Grown-ups', small business needs its own organizational theory." It is not advantageous for small businesses to take existing organizational theory and apply it to their operation. Small businesses need to develop their own formulas and procedures for success.

The Small Business Administration suggests that it is not so much the amount of money spent on advertising but how it is spent. How effective is the advertising campaign in producing the desired results, that is, sales for your business?

Some businesses base their advertising budgets on a percentage of profits. This can have its limitations, especially when profits are low. It may lead to further sales losses by reducing the amount budgeted for communicating information about your business to the consumer.

Using a percentage of sales figures on which to base your advertising budget is another option. You will need to determine whether the sales figure will be based on past sales or on an estimate of future sales. Sometimes the most reliable method is to combine the past sales figures and future sales estimates to arrive at an average. For example, Mrs. Imaginary sold $12,000 worth of candy through her home business last year, she hopes to increase sales to $15,000 this year. An average of the two figures would be $13,500, this would be the figure upon which she would base her advertising budget. If Mrs. Imaginary were to decide to spend 5% of sales, this would give her $675 to spend on advertising in the next year. The Small Business Administration suggests that small business people find it is best to plan their advertising campaigns on a short term basis; that is, from month to month or even on a weekly basis.

Advertising is done primarily to attract new customers and to hold onto the old ones.

According to Robert Karp's article in Journal of Small Business Management, April, 1974, the National Retail Merchants Association estimates that the average store would have to go out of business in 3 or 4 years if it did no advertising, because most enterprises lose between 20 and 25 percent of their customers each year.

Advertising is done to identify a business with the goods or services it offers, to build confidence in the business, to create good will, and to increase sales. Advertising cannot make a prosperous business out of one that is offering a poor product or inferior service. Untruthful or misleading advertising will not build customer confidence.

If prospective customers brought in by advertising campaigns are poorly treated, sales will not be made. A single ad will not increase sales or bring more customer traffic to a business.

MOTIVATION

- Understanding why people buy will help you to be more successful when advertising and selling the services and products of your business.
- Satisfying certain basic needs is why people buy goods and services.
  - --The need for food.
  - --The need for clothing.
  - --The need for shelter.
  - --The need for safety.
- Satisfying certain wants and desires is another reason people make purchases.
  - --The desire for comfort.
  - --The desire for security.
  - --The desire for economy.
  - --The desire for convenience.
  - --The desire for social approval.
  - --The desire for prestige.
- Identifying and understanding the underlying motives being expressed by the customer who is showing apparent interest in a particular product or service is what the successful business person can do.
- Awareness of the customer's needs and desires enables the aware business person to adjust the sales appeal and sales advice to suit that particular customer.

SELLING

- Sales are essential to the life of a business.
  - --Without sales a business will fail.
  - --Therefore, selling is a necessary and important component for business success.
- Success is based on the business person liking and getting along well with people.
  - --Successful business people genuinely want to satisfy their customers.
  - --Successful business people respect their customer's needs and wants.

- Aiding customers in their decision making process is really the art of selling.
  - --Products, services and ideas are sold mostly in personal face-to-face selling situations.
  - --Customers need to feel benefited by making the purchase.
  - --Customers satisfaction determines the ultimate success or failure of a business enterprise.
- Selling cannot be underestimated in its importance by the entrepreneur.
  - --Good customer relationships are invaluable to a business.
  - --Effective selling techniques are necessary.
  - --Treating customers fairly, honestly and courteously are good selling techniques.
  - --Satisfied customers usually return to do business at some future time.
  - --Satisfied customers will recommend the services and products offered by the enterprise to other people.
- Communicating information is an essential sales technique for the business person.
  - --Knowledgeability about the product or service is necessary.
  - --Confidence in the product and service is necessary.
  - --Confidence in the correctness of the information being presented is necessary.
- Sell concepts such as happiness or self-respect as well as the product or service.
  - --Sell a decorated cake as well as the notion that the personalized cake will enhance the enjoyment and happiness of the recipient while celebrating their special event.
  - --Sell a decorative object for the home, as well as the enjoyment that comes from adding personal touches that impart a distinctive personality to one's home.
- Consider selling on a consignment basis (through other people's business enterprises).
  - --An advantage, it increases exposure to customers.
  - --A disadvantage, it decreases direct customer contacts.

- Consider the selling opportunities that may be present in your community:
  - --Community festivals.
  - --Art-craft fairs and shows.
  - --Special events at shopping malls.
  - --Flea-markets.
  - --Fireman's fairs.
- Selling is probably the most important aspect of your business venture. Your business success or failure hinges upon your sales ability.
  - --Listen to your customers to hear what interests or concerns them about your service(s) or product(s). Respond to their interests or concerns accurately and promptly.
  - --Point out the advantages and qualities of your product or service.
  - --Demonstrate a product, let the customer try to use it for him/herself.
  - --Present information, a variety of facts, or a series of products or services in a logical, step-by-step methodically paced manner.
  - --Be cautious about suggesting substitutes if your customer's mind is positively set regarding a particular purchase decision.
  - --Effectiveness as a business person will be enhanced by perceiving basic customer needs.
  - --Know how to effectively guide customers toward a sales decision.

SUGGESTED ACTIVITIES

1. Interview some small business people, especially anyone with whom you are acquainted who is running a home based business, to gather information and ideas for planning an effective advertising campaign.
2. Make a list of all the ways you can possibly think of to effectively reach people to tell them about your business.
3. Look critically at advertisements in your local newspaper:
   a. Analyze them for content, what common elements do they have?
   b. Which ones catch your attention? What makes them catch your attention?

3. c. Look at the classified ads. Analyze the elements making some more effective than others.
4. Design an advertisement for your business.
5. Plan an advertising campaign.
6. Write out all the positive selling points for your business' product(s) or service(s).
7. Try out your sales presentation on a friend or family member whose opinion you respect.
8. Call a radio station, newspaper, direct mail advertising company and the telephone company's business office regarding yellow pages advertising to compare advertising costs.

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SECTION X

EVALUATION OF YOUR BUSINESS

OBJECTIVES

1. Determine what is right about your business.
2. Examine what changes need to be made in the business.
3. Learn what resources are available to extend your knowledge about running a successful small business enterprise.

SECTION X

EVALUATION OF YOUR BUSINESS

What is success? Everyone has their own unique definition of what is meant by success. In our culture success is often only measured by monetary returns. The financial world seems only to consider whether a profit or loss was shown when measuring success.

Measuring Success

Small business people, especially home entrepreneurs need a different measuring stick with which to judge their success. Many small business people work hard keeping their businesses viable. They do not expect to get rich. Monetary considerations may be only a partial consideration when they judge their success.

- Just seeing their business come from an idea through the planning phase into actual operation is a thrill for many home entrepreneurs. Part of the American Dream seems to be envisioning one's self running a business of one's own.
- For many home entrepreneurs the opportunity to make and design beautiful clothing or decorative objects that will be appreciated and enjoyed by others with similar values is an indication of their success.
- Having the opportunity to widen one's horizons, meeting people with similar interests is part of the satisfaction a home entrepreneur derives from managing a business.
- Being able to perform a service for a client, knowing that the service will permit the client to enjoy a better quality of life is satisfying to the entrepreneur.
- People offering child care services feel pride in knowing they provide peace of mind for working parents as well as exerting a positive influence in the developing life of a child.

Personal Considerations

There are many considerations for the small business owner. People who like working for themselves enjoy the independence of being their own boss, the challenges presented by their business operation, the opportunity for making decisions and the interactions they have with people. The fact that they do not make a great deal of money is not that discouraging to them. Their satisfaction comes in many other forms.

Other entrepreneurs find they do not enjoy the long hours they must spend making the business profitable. They do not like having all the worries, to make all the decisions, to take on all the responsibities of the business. They may be making a lot of money, but they are unhappy running their own business. Not everyone has what it takes to be an entrepreneur.

The personal qualities you have, need to develop, or need to learn to live with will become clearly apparent to you after you have been operating your own business for a period of time. It will be clear that you need the personal qualities of integrity, stamina, perseverance, intelligence, creativity, and self-confidence. The entrepreneur needs to be able to solve problems, have the ability to make decisions quickly and to get along with people.

If your business has expanded sufficiently to warrant help from an employee or two, you will need good communication skills. You will need to recognize the qualities in people that make a good employee. You will need to be able to keep a good employee with you. Good communication skills are also needed when dealing with strangers who may be your suppliers or your customers.

Staying In Business

Many new entrepreneurs starting in business lack specific training in sales, accounting and management. They do not think of price setting in terms of making a profit. The most common reasons for small business failure are:

- lack of formal strategic planning
- an inexperienced business owner
- mismanagement of resources
- insufficient money for operating expenses
- injudicious granting of credit
- excessive optimism, not looking at the facts realistically
- neglecting planning for involvement in daily business activity

The entrepreneur unaware of the common snares involved in operating a business can easily be overwhelmed by adverse developments. Failing to keep fully informed and abreast of current information available from knowledgeable resources can contribute to the failure of a small enterprise. Many small business owners do not recognize that planning is a constant management function.

The November 29, 1977 Wall Street Journal reported that more than half the firms going out of business every year have been in existance less than five years. The Journal of Small Business Management, January, 1981 in an article by Patrone and duBois stated "the average life of a small business is less than five years." However, many entrepreneurs do try again after failing in their first business. Having learned from their mistakes they subsequently open and operate a successful business.

Reevaluation--Your Second Business Plan

To evaluate your profit and loss statements after you have been functioning for a while may help you to determine if you are trying to sell something for which there is decreasing demand or increasing competition. You may have to adapt your business to meet needs that are current and changing from what they were when you first started your business.

An owner of a business selling live plants through home parties experienced success during the first two years of the business operation. However, during the third year sales began to slip. Examination of her profit and loss statements confirmed what she suspected, sales were down and gross profits were lower. Through some careful investigation she found a number of factors in her community were contributing to the diminishing sales of plants through parties.

This entrepreneur had an idea about what she could do to change the direction of her business. Approaching area business owners, restaurateurs, shopkeepers, banks, professional offices, and hair salons, she was able to rebuild a lucrative business supplying fresh, attractive plants that enhanced the decor of her client's business facility.

Issues for Reevaluation Planning

Your reevaluation may be very much like a business plan for starting a new business. Consider what should be changed or added to your business. This can be accomplished through a critical look at your profit and loss statements. Inventory records will tell you what is not selling. Customers can be a very good source of suggestions regarding business improvements. Ask them direct, specific questions about what they like and dislike about your products and service. Listen carefully to customer comments, they are an important source of feedback.

Found below are examples of the kinds of information a comprehensive reevaluation plan might consider.

- clear definition of my business
  --the scope of product line and market
  --the kind of customers to be served
  --the customer needs that the business will satisfy
- neighborhood and community assessment
  --keeping attuned to changes
  --considering how these changes may affect my business

  appraisal of my competition
  --comparing my quality and prices with their's
  --following their advertising
  --periodic visitation
  --improvements to better meet competition
- determination of my present business status
  --clear records of expenses, bills paid, taxes paid, and income from sales
  --profit after expenses has been determined
  --available cash to handle anticipated needs has been determined
- planning is a constant function
  --the present position of the business is defined
  --the future goals and direction for the business are defined
  --the plans are long-range, made to some arbitrary, distant length of time that makes sense for my particular business operation
- evaluation of my self and my business has been made
  --assessment of my personal strengths and weaknesses
  --assessment of the distinctive skills and competencies of my business
  --inventory of personnel requirements has been made
  --inventory of facilities, equipment and supplies has been made

After doing your business reassessment and writing your new business plan, you may decide that your successful business has outgrown the confines of your home.

Looking Toward The Future

Has the time come to expand your business operation? If it has, you will be facing a number of important decisions.

- finding a good business location
- finding suitable employees
- facing additional responsibilities
- expanded business hours
- finding additional capital for expansion

You no doubt realize the value of reading about what is going on in your business field and in the nation. Analyzing the political, social and economic environment in which your business is functioning should help you make better decisions. Being aware of new products, new inventions and new services helps you improve and adapt your business to a changing environment. A small company can computerize their record keeping functions through a small company owned computer, or they can rent computerized record keeping services. To learn about important trends a small company can receive extensive computerized information from data banks.

Changing government policy may mean your expansion plans will need to find available sources of capital other than SBA (Small Business Administration) loans and traditional sources of loans. Most states now have programs aimed at providing financial assistance for entrepreneurs. Expansion capital can also be found from venture-capital firms, commercial finance companies and life-insurance companies. Another source of capital you may want to consider is from franchise operations searching for additional outlets. A resource list is presented on page 111.

Conclusion

Small businesses enjoy certain advantages over larger scale operations. They are easier to run. They can offer more personalized service to their customers. Small business can make changes and adaptations readily. They are able to move quickly taking advantage of opportunities in marketing new products. Large corporations must operate to please the stock holders and board of directors. Decisions are made more slowly.

What is required of a small business? Survival. Profit is a secondary consideration after the survival of the business is assured. The purpose of having a plan and management policy is to try to smooth growth and income over time. Erratic growth and income make it difficult for a small enterprise to survive.

Small businesses are more at the mercy of the lending market. To raise capital a small business is not able to issue stocks or long term bonds, but must depend on obtaining a loan. Typically, a small business will pay 2 to 5 percent above the prime rate, which is only available to the large corporations considered most credit worthy. During times of recession a small business is vulnerable. They must continue to repay burdensome loans despite reduced income from a slowed economic environment.

The small business owner looking ahead to the future needs enthusiasm and a willingness to take risks, tempered with a strong sense of what is realistic.

Resource Guide

The Small Business Administration Publications and Consultant, information available through:

U.S. Business Administration
P.O. Box 15434
Fort Worth, Texas 76119
800-433-7212

The Pennsylvania Department of Commerce
Small Business Action Center
P.O. Box 8100
Harrisburg, Pennsylvania 17105
717-783-5700

Continuing Education Programs available through:

University or College
Junior College
Vocational School

Trade Association and Journals

Cooperative Extension Service of State University

Organizations for Women Entrepreneurs:

American Women's Economic Development Corporation (AWED)
1270 Avenue of The Americas
New York, New York 10020
212-397-0880

National Association of Black Women Entrepreneurs (NABWE)
2200 Woodward Towers
Detroit, Michigan 48226
313-963-8766

National Association of Women Business Owners (NAWBO)
500 North Michigan Avenue Suite 1400
Chicago, Illinois 60611
312-661-1700

Public Library -- Business Information Section

University Library -- Business College

Publications devoted entirely:

- In Business
- Inc.
- The Journal of Small Business Management
- Venture
- Working Woman, October, 1982

Established publications carrying feature articles and regular columns devoted to small business owners:

- The Wall Street Journal
- Forbes
- Harvard Business Review

SUGGESTED ACTIVITIES

1. Write reasons that make sense to you concerning why planning is thought to be a never-ending management function.

   Do you agree that planning can be thought of as a bridge between ideas and reality?

2. Do an evaluation of your own business.

   a. Analyze what is progressing well.

   b. Analyze the areas of your business needing attention and improvement.

   c. How could you redirect your business to make an impact in the current business environment?

3. Locate the consultant of the Small Business Administration in your region.

   a. Find out what training programs may be available.

   b. Begin compiling a collection of useful SBA publications.

   c. Investigate the current availability of SBA loans.

4. Contact the Small Business Action Center of the State Department of Commerce to learn what resources are available to a small business person like you.

5. Research Venture Capitalists.

   a. What can they do for you?

   b. What are they looking for?

   c. Where is a venture capitalist in your region?

   Hint: Consult the Resource Guide on p. 111.
   Consult a college business library for these publications.
   Consult the Business Section of your Public Library.

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